

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES POLICY ON MATERIAL RELATED PARTY TRANSACTIONS

Section 1. PURPOSE

The National Reinsurance Corporation of the Philippines (the "Company" or "Nat Re"), recognizes the importance of establishing a Policy on Material Related Party Transactions ("**Material RPT Policy**") to set out the guidelines on what constitutes Material RPTs and the requirements for its review, approval and proper disclosure. These guidelines are in compliance with [*SEC Memorandum Circular No. 10, Series of 2019 on the Rules on Material Related Party Transactions for Publicly-listed Companies*](#) which aims to promote good corporate governance and to protect the minority investors.

Section 2. SCOPE

Related party transactions (RPTs) are generally allowed provided that, when the related party transaction, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounts to **ten percent (10%) or higher of Nat Re's total assets** based on its latest audited financial statements, it **shall be subject to this Material RPT Policy**.

Section 3. TERMS AND DEFINITIONS

TERM	DEFINITION
AFFILIATE	Refers to an entity linked directly or indirectly to Nat Re through any one or a combination of any of the following: <ul style="list-style-type: none"> • Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of <i>at least ten percent (10%) or more of the outstanding voting stock of Nat Re</i>, or vice-versa; • Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations; • Common stockholders owning at least ten percent (10%) of the outstanding voting stock of Nat Re and the entity; or • Management contract or any arrangement granting power to Nat Re to direct or cause the direction of management and policies of the entity, or vice-versa.
ASSOCIATE	An entity over which Nat Re <i>holds twenty percent (20%) or more</i> of the voting power, directly or indirectly, or which Nat Re has significant influence.
CONTROL	A person or an entity controls Nat Re if and only if the person or entity has all of the following: <ul style="list-style-type: none"> • Power over Nat Re; • Exposure, or rights, to variable returns from its involvement with Nat Re; and • The ability to use its power over Nat Re to affect the amount of Nat Re's returns.
MATERIAL RELATED PARTY TRANSACTIONS	Any related party transaction(s), either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to <i>ten percent (10%) or higher</i> of the Company's total assets based on its latest audited financial statements.

TERM	DEFINITION
MATERIALITY THRESHOLD	<i>Ten percent (10%) of Nat Re's total assets</i> based on its latest audited financial statements.
RELATED PARTIES	This covers Nat Re's directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over Nat Re. If applicable, it also covers Nat Re's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.
RELATED PARTY REGISTRY	A record of the organizational and structural composition, including any change thereon, of Nat Re and its related parties.
RELATED PARTY TRANSACTIONS	a transfer of resources, services or obligations between Nat Re and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
SIGNIFICANT INFLUENCE	The power to participate in the financial and operating policy decisions of Nat Re but has no control or joint control of those policies.
SUBSTANTIAL SHAREHOLDER	Any person who is directly or indirectly the <i>beneficial owner of more than ten percent (10%)</i> of any class of Nat Re's equity security.

Section 4. Guiding Policies on Material Related Party Transactions

Nat Re adopts the following policies:

- a. **Identification of related parties.** Nat Re shall clearly identify persons and companies that are considered as Nat Re's related parties. The Management / Board of Directors shall see to it that there is quarterly review and updating of the Related Party Registry to capture organizational and structural changes in Nat Re and its related parties.
- b. **Coverage of Material RPT.** This Material RPT Policy shall cover all transactions meeting the materiality threshold.

Transactions amounting to ten percent (10%) or more of the total assets that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the material RPT to the requirements of this Material RPT Policy. The prospective treatment should, however, be without prejudice to regulatory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

- c. **Adjusted Thresholds.** Nat Re shall be allowed to set a threshold lower than the materiality threshold provided under this Policy upon determination by the Board of Directors of the risk of the RPT to cause damage to the company and its shareholders. The adjusted threshold, when applicable, shall be contained in this Policy.
- d. **Identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with material RPTs.** This covers the identification and prevention or management of potential or actual conflicts of interest which may arise out

of or in connection with the material RPTs. Directors and officers with personal interest in the transaction shall fully and timely disclose any and all material facts, including their respective interests in the material RPT and abstain from the discussion, approval and management of such transaction or matter affecting the Company. In case they refuse to abstain, their attendance shall not be counted for purposes of assessing the quorum and their votes shall not be counted for purposes of determining majority approval. ([NRCP Policy on Conflict of Interest](#))

- e. **Guidelines in ensuring arm's length terms.** Nat Re shall ensure that no preferential treatment shall be given to related parties that are not extended to non-related parties under similar circumstances.

Before the execution of the material RPT, the Board of Directors should appoint an external independent party to evaluate the fairness of the terms of the material RPTs. An external independent party may include, but is not limited to, auditing/accounting firms and third-party consultants and appraisers. The independent evaluation of the fairness of the transparent price ensures the protection of the rights of shareholders and other stakeholders.

There shall also be guidance for an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of Nat Re and its shareholders. The price discovery mechanism may include, but is not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

- f. **Approval of material RPTs.** All individual material RPTs shall be approved by at least two-thirds (2/3) vote of the board of directors, with at least a majority of the independent directors voting to approve the material RPT. In case that a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock. For aggregate RPT transactions within a twelve (12)-month period that breaches the materiality threshold of ten percent (10%) of the Company's total assets, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

Directors with personal interest in the transaction should abstain from participating in discussion and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of determining approval.

- g. **Self-assessment and periodic review.** The internal auditor shall conduct a periodic review of the effectiveness of the Company's system and internal controls governing material RPTs to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

The Compliance Officer shall ensure that the Company complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. He shall aid in the review of the company's transactions and identify any potential material RPT that would require review by the Board. He shall ensure that Nat Re's material RPT Policy is kept updated and is properly implemented throughout the company.

- h. **Disclosure requirement of material RPTs.** The members of the board, substantial shareholders, and officers shall fully disclose to the Board of Directors all material facts related to material RPTs as well as their direct and indirect financial interest in any transaction or matter

that may affect or is affecting the company. Such disclosure shall be made at the board meeting where the material RPT will be presented for approval and before the completion or execution of the material RPT. ([NRCP Policy on Conflict of Interest](#))

- i. **Whistle blowing mechanisms.** This whistleblowing mechanisms shall be consistent with the corporate values and codes of conduct set by the board of directors. It shall encourage all stakeholders to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable material RPTs. It shall include guidance on how legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the board itself.

The Company has a separate Whistleblower policy to encourage directors, officers, employees and other parties such as clients, consultants, contractors and suppliers to come forward and raise serious concerns about misconduct and malpractices and to mitigate risk and losses through the early discovery of irregular activities. This policy provides assurance to a "whistleblower" that he is protected against any act of retaliation, reprisal or harassment and will be treated with utmost confidentiality. On the other hand, an employee who knowingly or recklessly makes statements or disclosures that are not in good faith shall be subject to disciplinary action, which may include termination. ([NRCP Whistleblower Policy](#))

- j. **Remedies for abusive material RPTs.** These are measures that would cut losses and allow recovery of losses or opportunity costs incurred by Nat Re arising out of or in connection with abusive material RPTs. *Abusive material RPTs refer to material RPTs that are not entered at arm's length and unduly favor a related party.*

This also includes the penalties and the manner of imposing the same on personnel, officers or directors, who have been remiss in their duties in handling material RPTs in accordance with company policies. Employees found to have violated company rules and regulations shall be subject to disciplinary action, such as suspension or dismissal. He shall be given the opportunity to explain himself before any disciplinary action is decided on and carried out. ([NRCP Code of Ethics](#))

Pursuant to Sections 26 and 27 of the Revised Corporation Code, an interested director or officer of a corporation shall be disqualified from being a director, trustee or officer of any other corporation on the basis of a final judgment rendered by a court of competent jurisdiction against the interested director or officer for abusive material RPTs. The disqualification shall be for a period of at least one (1) year or more, as may be determined by the Commission.

The imposition of the foregoing penalties shall be without prejudice to any other administrative penalties that may be imposed by the Commission, and/or civil or criminal penalties, as may be provided by the Revised Corporation Code of the Philippines, Securities Regulation Code and other related laws.

Section 5. DUTIES AND RESPONSIBILITIES

A. Board of Directors

The Board of directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable law and regulations to protect the interest of the Company's shareholders and

other stakeholders. Towards this end, the board of directors shall carry out the following duties and responsibilities:

1. To institutionalize an overarching policy on the management of material RPTs to ensure effective compliance with existing laws, rules and regulations at all times and that material RPTs are conducted in arm's length basis, and that no shareholder or stakeholder is unduly disadvantaged.
2. To approve all material RPTs that cross the materiality threshold and write-off of material exposures to related parties, as well as any renewal or material changes in the terms and conditions of material RPTs previously approved in accordance with Section 4 (f) of this Policy.

Material changes in the terms and conditions of the material RPT include, but are not limited to, changes in the price, interest rate, maturity date, payment terms, commissions, fees, tenor and collateral requirement of the material RPT.

3. To establish an effective audit, risk and compliance system to:
 - Determine, identify and monitor related parties and material RPTs;
 - Continuously review and evaluate existing relationships between and among businesses and counterparties; and
 - Identify, measure, monitor and control risks arising from material RPTs.

The system shall be able to define the related parties' extent of relationship with the Company; assess situations in which a non-related party (with whom a company has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the nature and amount of exposures of the company to a particular related party. The said system will facilitate submission of accurate reports to the regulators. The system, as well as the overarching policies, shall be subject to periodic assessment by the internal audit and compliance officer and shall be updated regularly for its sound implementation. The overarching policy and the system shall be made available to the SEC and audit functions for review. Relevant changes in the material RPT rules shall be approved by majority of the board of directors and approved by majority of the stockholders constituting a quorum.

4. To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board should ensure that senior management addresses legitimate issues on material RPTs that are raised. The board should take responsibility for ensuring that stakeholders who raise concerns are protected from detrimental treatment or reprisals.

B. Senior Management

Senior management shall implement appropriate controls to effectively manage and monitor material RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the company's policy and SEC's regulations.

Section 6. DISCLOSURE AND REGULATORY REPORTING

Nat Re shall submit the following to the SEC:

Nat Re's Material RPT Policy

1. A summary of material related party transactions entered into during the reporting year which shall be disclosed in Nat Re's Integrated Annual Corporate Governance Report (I-ACGR) to be submitted annually every May 30;
2. Advisement Report (attached herewith as Annex A) of any material RPT filed within three (3) calendar days from the execution date of the transaction. The Advisement Report shall be signed by Nat Re's Corporate Secretary or authorized representative.

At a minimum, the disclosures in both (1) and (2) above shall include the following information:

- i. complete name of the related party;
 - ii. relationship of the parties;
 - iii. execution date of the material RPT;
 - iv. financial or non-financial interest of the related parties;
 - v. type and nature of transaction as well as a description of the assets involved;
 - vi. total assets;
 - vii. amount or contract price
 - viii. percentage of contract price to the total assets of Nat Re;
 - ix. carrying amount of collateral, if any;
 - x. terms and conditions;
 - xi. rationale for entering into the transaction; and
 - xii. the approval obtained (i.e. name of directors present, name of directors who approved the material RPT and the corresponding voting percentage obtained).
3. Nat Re shall disclose to SEC this Material RPT Policy, duly signed by the company's Chairman of the Board and Compliance Officer.

Likewise, this Material RPT Policy, with accessible link, shall also be posted on the Company's website within five days (5) from its submission to the SEC.

ENDORSED BY:


REGINA S. RAMOS
HEAD OF RISK AND COMPLIANCE


ALLAN R. SANTOS
PRESIDENT & CEO


REX MA. A. MENDOZA
CHAIRMAN, GOVERNANCE AND
RPT COMMITTEE

APPROVED BY:


WILFREDO C. MALDIA
CHAIRMAN OF THE BOARD

Approved by the Board of Directors on its regular meeting on September 26, 2019

**ADVISEMENT REPORT ON
MATERIAL RELATED PARTY TRANSACTIONS**

Reporting PLC:

SEC Identification Number:

Name of Related Party:

Execution Date of Transaction:

Relationship between the Parties including financial/non-financial interest:

Type/Nature of Transaction and Description of Assets Involved	Terms and Conditions	Rationale for Entering into the Transaction	Total Assets ¹ of Reporting PLC	Amount/ Contract Price	Percentage of the Contract Price to the Total Assets of the Reporting PLC	Carrying Amount of Collateral, if any	Approving Authority ²

¹ Total assets shall pertain to consolidated assets if the reporting PLC is a parent company.

² The information shall include the names of directors present, names of directors who approved the Material Related Party Transaction and the corresponding voting percentage obtained.

SIGNATURES

Pursuant to the requirements of the Commission, the company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

(Name of Reporting PLC)

(Name of Related Party)

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Name, Signature of the Corporate Secretary/
Authorized Representative³

.....

Name, Signature of the Related Party/Authorized Representative³

³ Proof of authority must be attached to the Advisement Report.