



**ALLIEDBANKERS INSURANCE CORPORATION**

**RELATED PARTY TRANSACTION POLICY**

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## I. Introduction

In the conduct of its business, ABIC (the Company) may enter into transactions with related parties. This policy provides the guidelines on what constitutes a related party transaction (RPT), and set forth the requirements for the review, approval and disclosure of RPTs.

The Insurance Commission recognizes the importance of establishing and maintaining policies and procedures for transactions between related parties. These policies shall be made to ensure that such transactions are only undertaken on an arm's length basis for the financial, commercial and economic benefit of the given Covered Institution (CI) and the entire group where the said institution belongs. The IC expects every single CI including its subsidiaries and affiliates, to exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the CI and its policyholders, members, planholders, card holders, claimants, creditors, fiduciary clients, and other stakeholders.

## II. Objectives

This policy is enacted to ensure that:

1. Related party and RPTs are defined and the coverage/scope of the policy is clearly outlined;
2. RPTs are conducted on an arms' length basis;
3. Potential or actual conflicts of interest which could possibly arise from RPTs are prevented or managed;
4. RPTs are properly reviewed and approved by designated authorities; and
5. Adequate disclosure is maintained for RPTs in accordance with applicable legal and regulatory requirements.

## III. Definitions

1. **Related Parties** – shall cover the IC-CIs' subsidiaries as well as affiliates and special purpose entities that the CI exerts direct/indirect control over or that exerts significant influence over the CI; the directors; officers; stockholders and related interests and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the CI, hence, is identified as a related party.

Under PAS 24:

- a. *Related parties* include the parents, entities with joint control or significant influence over the entity, subsidiaries, associates, joint ventures in which the entity is a venture, key management personnel of the entity or its parent; and

other related parties.

- b. *Significant Influence* is the power to participate in the operating and financial policy decisions of an entity; it is not control over those policies. It may stem from share ownership, statute or agreement and may be exercised by representation on the board of directors, participation in the policymaking process, material inter-company transactions, interchange of management personnel and dependence on technical information

**2. Close Family Members** – are persons related to the CI's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother-/sister-in-law, grandparent-in-law, and grandchild-in-law of the CI's DOS.

**3. Corresponding persons in affiliated companies** – are the DOS of the affiliated companies and their close family members.

**4. Under Section 290 of the Insurance Code, as amended by R.A. 10607: Control** – is presumed to exist if any person directly or indirectly owns, controls or holds with the power to vote forty percent (40%) or more of the voting securities of any other person. Provided, that no person shall be deemed to control another person solely by reason of his being an officer or director of such other person.

**5. Control of an enterprise** – exists when there is:

- a. Under Section a (i) of the Pre-Need Code: Affiliate of, or affiliated with, a specified person refers to a person that directly or indirectly, through one (1) or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. Exercising control over a legal entity shall mean any one of the following.
  - i. owning either solely or together with affiliated persons more than twenty-five percent (25%) of the outstanding capital stock of a legal entity; and
  - ii. being an officer or director of such legal entity.
- b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- e. Any other arrangement similar to any of the above.

Should the CI choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the CI shall submit a written commitment that:

- i. shares owned or held are exclusively for investment purposes;
- ii. the CI-stockholder will not serve on the board of directors and will not nominate any candidate to serve on the board or otherwise seek board representation;
- iii. the CI-stockholder will have only limited contacts with the management that are customary for interested shareholders;
- iv. The CI-stockholder will engage only in normal and customary transactions with the enterprise; and
- v. The CI will not pledge the shares acquired to secure a loan with any institution.

**6. Related party transactions** – are transactions or dealings with related parties of the CI, including its trust department, regardless of whether or not a price is charged. These shall include, but not limited to the following:

- a. On-and off-balance sheet credit exposures and claims and write-offs;
- b. Investments and/or subscriptions for debt/equity issuances;
- c. Consulting, professional, agency and other service arrangements/contracts ;
- d. Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
- e. Construction arrangements/contracts;
- f. Lease arrangements/contracts;
- g. Trading and derivative transactions;
- h. Borrowings, commitments, fund transfers and guarantees;
- i. Sale, purchase or supply of any goods or materials; and
- j. Establishment of joint venture entities

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

**7. Insurance group** – refers to a group structure which contains two or more insurers.

**8. Arm's length transaction** – A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.

#### **IV. Duties and Responsibilities/ Roles and Functions of the CI's 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 laws and regulations to protect the interest of policyholders, members, planholders, card holders, claimants, creditors, and other stakeholders. Towards this end, the Board of Directors shall carry out the following duties and responsibilities:

1. To observe good governance and approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged.
2. Guidelines in determining arm's length terms:

In evaluating the business rationale of a significant related party transaction outside the company's normal course of business, the members may consider the following:

- a. Whether the transaction:
  - i. Is overly complex (e.g, it may involve multiple related parties within a consolidated group).
  - ii. Has unusual terms of trade, such as unusual prices, commissions, interest rates, fees, tenor, collateral requirements to such related parties than similar transactions with non-related parties under similar circumstances.
  - iii. Lacks an apparent logical business reason for its occurrence.
  - iv. Involves previously unidentified related parties.
  - v. Is process in an unusual manner.
- b. Whether management has discussed the nature of, and accounting for such a transaction with those charged with governance. This shall include guidance for an effective price discovery mechanism to ensure the transactions are engaged in terms that promote the best interest of the Company and its stakeholders.
- c. Whether the management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction.

#### **3. Conflicts of interest**

The policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise. The members of the board, stockholders, and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the Company. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the Company.

#### 4. **Materiality Threshold**

The policy shall include materiality thresholds for RPTs, which shall be set at a level where omission or misstatement of the transaction could pose significant risk to the Company and could influence the economic decisions of its board of directors. Materiality threshold may be set for each type of transaction and for each related party group, depending on the nature of the transaction and risk involved.

##### **Limits:**

##### **a. Materiality Threshold**

15% of the average projected statutory net income of the Company over the next three (3) years;

- i. A level where omission or misstatement of the transaction could pose significant risk to the Company and could influence the economic decisions of its board of directors. Materiality threshold may be set for each type of transaction and for each related party group, depending on the nature of the transaction and risk involved.

##### **b. Maximum Total Annual Aggregate Exposure To A Related Party**

- i. 15% of the Net Asset Value of the Company.
- ii. Net Asset Value means the book value of the total assets of the Company less the book value of the total liabilities of the Company as of the immediately preceding fiscal year.
- iii. The Company may also set the internal limits or sub-limits for individual and aggregate exposures to a related party and for aggregate exposures to all related parties that are consistent with the Company's risk appetite, risk profile and capital strength.

#### 5. **Whistle-blowing Mechanisms**

This policy shall adopt the steps outlined in the Company's Anti-Fraud Bribery Whistle-blowing Corruption Policy.

#### **V. Exclusions**

The RPT policy may also identify transactions excluded from the materiality threshold requirement, such as regular trade transactions involving purchase and sales of debt securities traded in an active market.

All transactions considered USUAL COURSE OF BUSINESS, regardless of amount are not covered by the Review and Approval Process, provided, that such transactions are on

substantially the same terms as those prevailing at the time for comparable products or services with unrelated parties. These include, but not limited to the following:

1. Employment and corresponding compensation packages of directors and executives duly approved by the Corporate Governance Committee.
2. Approved employee incentives or fringe benefits given to all qualified employees (including Senior Officers).
3. Leasing of commercial space, real property, equipment and others either as lessee or lessor.
4. Banking, finance and insurance related services such as but not limited to cash investment, bank loans, dividend income from investments, non-life insurance policies etc.
5. Any transactions involved in rendering of any services covered by service level agreements and cost reimbursement in relation to manpower, utilities, construction, engineering, procurement, property management, and other similar services in the ordinary course of business.

#### **VI. Review and Approval Process**

All material RPTs, excluding those considered USUAL COURSE OF BUSINESS are referred to Related Party Committee.

The Board of Directors reviews and approves all material RPT endorsed by the Related Party Transaction Committee.

The RPT Committee may, at any time ask for review of any transactions.

All material RPTs which are approved by the Board will be submitted to the shareholders during the shareholders meeting.

Any member of the Board or Related Party Transactions Committee who has interest in the RPT must abstain from participation in the review and approval of such transaction.

#### **VII. Restitution of losses and other remedies for abusive RPTs**

The policy shall include measures that would cut losses and allow recovery of losses or opportunity costs incurred by the Company arising from RPTs that are not engaged or arm's length terms. The Policy shall also include the manner of handling personnel officer. Officers or directors who have been remiss in their duties in handling RPTs.



## **VIII. Roles of Senior Management and Self-Assessment Function**

- 1. Senior Management** – shall implement appropriate controls to effectively manage and monitor 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 CI's policy and IC's regulations.
- 2. The internal audit function** – shall conduct a period formal review of the effectiveness of the CI's system and internal controls governing 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.
- 3. The compliance function** – shall ensure that the CI complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall aid in the review of the CI's transactions and identify any potential RPT that would require review by the Board or RPT Committee. It shall ensure that the RPT policy is kept updated and is properly implemented throughout the CI.

## **IX. Disclosure and Regulatory Reporting**

Every Company shall adequately disclose in their Annual Report, if applicable, the overarching policies and procedures for managing RPTs , including managing of conflict of interest or potential conflict of interest, responsibility of RPT Committee, nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material RPTs.

In addition to the required reports on transactions with subsidiaries and affiliates under existing regulations:

1. Insurance Companies that are part of a group and conglomerates shall report all entities in the conglomerate structure where it belongs (Annex A). The said structure shall likewise disclose beneficial owners of shareholdings that are in the name of PCD Nominee Corporation. The said report shall be submitted to the IC within 30 calendar days after the end of every calendar year.
2. Insurance Companies, MBAs, Pre-Need companies and HMOs shall submit a report on material exposures to related parties, which shall include the material RPTs of their non-financial subsidiaries and affiliates, (Annex B) within 20 calendar days after the end of the reference quarter.

## **X. Revision**

Any revision and supplement to this RPT Policy shall be upon the RPTC recommendation and approval of the Board of Directors.