

**BDO LIFE ASSURANCE COMPANY, INC.  
RELATED PARTY TRANSACTIONS POLICY**

**A. OBJECTIVES**

In compliance with Insurance Commission (IC) Circular Letter (CL) No. 2017-29, the Related Party Transactions policy applies to BDO Life Assurance Company, Inc. (the Company), its subsidiaries and affiliates, as applicable and intended to:

- ensure that every Related Party Transaction (RPT) is conducted in a manner that will protect the Company from conflict of interest which may arise between the Company and its Related Parties; and
- ensure proper review, approval, ratification and disclosure of transactions between the Company and any of its Related Party/ies as required in compliance with legal and regulatory requirements.

**B. RELATED PARTIES**

For purposes of this policy, a Related Party<sup>1</sup> means-

**1. DOSRI**

*a) Directors*

*b) Officers*

*c) Stockholder*

*d) Related interest shall refer to any of the following:*

- (1) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the Company;
- (2) Partnership of which a director, officer, or stockholder of a Company or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
- (3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;

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<sup>1</sup> Under PAS 24 - 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. (IC CL No. 2017-29)

- (4) Corporation, association or firm of which any or a group of directors, officers, stockholders of the Company and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least forty percent (40%) of the subscribed capital of such corporation, or of the equity of such association or firm;
- (5) Corporation, association or firm wholly or majority-owned or controlled<sup>2</sup> by any related entity or a group of related entities mentioned in Items d(2), d(4) and d(5) of this Section;
- (6) Corporation, association or firm which owns or controls<sup>3</sup> directly or indirectly whether singly or as part of a group of related interest at least forty percent (40%) of the subscribed capital of a substantial stockholder of the Company or which controls<sup>4</sup> majority interest of the Company pursuant to IC CL No. 2017-29;
- (7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the Company; and

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<sup>2</sup> 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.

Control of an enterprise exists when there is:

- a. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- b. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- c. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- d. Any other arrangement similar to any of the above.

Should the company choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the company shall submit a written commitment that: (1) shares owned or held are exclusively for investment purposes; (2) the company-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; (3) the company-stockholder will have only limited contacts with the management that are customary for interested shareholders; (4) the company-stockholder will engage only in normal and customary transactions with the enterprise; and (5) the company will not pledge the shares acquired to secure a loan with any institution. (*IC CL No. 2017-29*)

<sup>3</sup> *Ibid.*

<sup>4</sup> *Id.*

(8) Non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers or related companies.

2. **SUBSIDIARY** shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled<sup>5</sup> or held with power to vote by its parent corporation.

3. **AFFILIATES** shall refer to an entity linked directly or indirectly to the Company by means of:

a. Ownership, control<sup>6</sup> as defined under IC CL No. 2017-29, or power to vote of at least forty percent (40%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;

b. Interlocking directorship or officership, where the concerned director or officer owns; controls,<sup>7</sup> as defined under IC CL No. 2017-29; or has the power to vote of at least forty percent (40%) of the outstanding voting stock of the borrowing entity/counterparty;

c. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Company and at least forty percent (40%) of the outstanding voting stock of the borrowing entity/counterparty;

d. Management contract or any arrangement granting power to the Company to direct or cause the direction of management and policies of the borrowing entity/counterparty; or

e. Permanent proxy or voting trusts in favor of the Company constituting at least forty percent (40%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;

*Note: In cases where the borrowing entity/counterparty is linked to the Company both as DOSRI & as a Subsidiary or Affiliate, the DOSRI rules shall apply.*

#### 4. **OTHER RELATED PARTIES**

a. Any party (including their subsidiaries, affiliates and special purpose entities) that the Company exerts direct/indirect control<sup>8</sup> over;

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<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

- b. Any party that exerts significant influence<sup>9</sup> over the Company;
- c. Second degree relatives by consanguinity (grandparents, grandchildren, brothers and sisters) or affinity (grandparents-in-law, brothers-in-law and sisters-in-law), legitimate or common-law, of Directors and select Senior Officers of the Company (i.e., SVP or higher who have the ability to control or to exercise significant influence on the outcome of the transaction);
- d. Directors, Officers<sup>10</sup> and Stockholders<sup>11</sup> of the affiliated companies;
- e. Close family members or relatives in the second degree by consanguinity (spouse, parent, child, grandparents, grandchildren, brothers and sisters) or affinity (parents-in-law, children-in-law, grandparents-in-law, grandchildren-in-law, brothers-in-law and sisters-in-law), legitimate or common-law, of Directors, Officers<sup>12</sup> and Stockholders<sup>13</sup> in affiliated companies; and
- f. Such other person/juridical entity whose interests may pose potential conflict with the interest of the Company.

For items a and b, the above definition shall include direct or indirect linkages to the Company identified as follows:

1. Ownership, control<sup>14</sup> or power to vote, of ten percent (10%) to less than forty percent (40%) of the outstanding voting stock of the borrowing entity, or vice-versa;
2. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;

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<sup>9</sup> Under PAS 24 - 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. (*IC CL No. 2017-29*)

<sup>10</sup> President, Chief Executive Officer, Chief Financial Officer, or Treasurer of an affiliated company

<sup>11</sup> Stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity holding more than fifty percent (50%) of the subscribed capital of the affiliated company

<sup>12</sup> See *supra* note 10

<sup>13</sup> See *supra* note 11

<sup>14</sup> See *supra* note 2

3. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Company and ten percent (10%) to less than forty percent (40%) of the outstanding voting stock of the borrowing entity; or

4. Permanent proxy or voting trusts in favor of the Company constituting ten percent (10%) to less than forty percent (40%) of the outstanding voting stock of the borrowing entity, or vice versa.

The persons and entities in each Related Party Group shall be determined in advance and a central inventory of all related parties of the Company shall be set up, maintained and updated from time to time to reflect subsequent changes in relationships such as a non-related party becoming a related party, promotions, resignations or retirements of company officers.

### **C. RELATED PARTY TRANSACTIONS<sup>15</sup>**

#### **1. Types of transactions to be covered shall include but not limited to the following:**

##### **a. Credit Transactions**

- (1) On-and-off balance sheet credit exposures and claims and write-offs; and
- (2) Borrowings, commitments, fund transfers and guarantees.

##### **b. Services**

- (1) Consulting, professional, agency and other service arrangements/contracts; and
- (2) Construction arrangements/contracts;

##### **c. Goods and Materials**

- (1) Purchases, sales or supply of any goods or materials

##### **d. Leases**

- (1) Lease arrangements/contracts

##### **e. Assets**

- (1) Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements)

##### **f. Investments**

- (1) Investments and/or subscriptions for debt/equity issuances not traded in the active market; and
- (2) Establishment of joint venture entities

##### **g. Trading and Derivative Transactions – not listed in an active market (PDTC, PSE)**

In general, all transactions that could pose material/special risk or potential abuse to the Company and its stakeholders shall be covered by this policy.

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<sup>15</sup> *Related party transactions* are transactions or dealings with related parties of the Company, including its trust department, regardless of whether or not a price is charged. (IC CL No. 2017-29)

Related party transactions shall 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.

The Company's existing systems shall be utilized and enhanced to facilitate identification of related party transactions.

## 2. Types of transactions not to be covered

- a. Deposits in banks;
- b. Regular trade transactions involving purchase and sales of debt securities traded in an active market;
- c. Investments and/or subscriptions for debt/equity issuances traded in an active market; and
- d. Insurance policies.

The Company shall exclude other transactions that do not give rise to credit and/or counterparty risks and those that do not pose material/special risk or potential abuse to the Company and its stakeholders.

## D. MATERIALITY THRESHOLDS AND EXPOSURE LIMITS

The following amounts are considered material exposures for each type of related party transaction, for each related party group, and for all related party groups:

Type of RPT	Materiality Threshold (per transaction)	Exposure Limit (per Related Party Group)			Maximum Aggregate Exposure Limit (for All Related Parties)
		DOSRI	Subsidiaries / Affiliates	Other Related Party	
A. Investments	50M	5B	5B	10B	20B
B. Loans	50M	5B	5B	10B	20B
C. Write-off	5M	50M	50M	50M	150M
D. Services	25M	500M	500M	200M	1.2B
E. Goods and Materials	5M	50M	50M	20M	120M
F. Leases	5M	50M	50M	20M	120M
G. Assets	2M	10M	10M	10M	30M

## E. TERMS OF RELATED PARTY TRANSACTIONS

To ensure that related party transactions are conducted at arm's length basis and in the ordinary course of business, the terms and conditions of the transaction should not be more favorable than similar transactions with non-related parties. The terms and conditions shall include those relating to term, interest rates, fees, collaterals, contract/selling price and other relevant information that will allow a clear determination that no preferential treatment was given to a related party.

The price discovery mechanisms used and the results obtained should also be disclosed in the proposal. The price discovery mechanism may include, but 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. CONFLICTS OF INTEREST**

All potential or actual conflicts of interests relating to Related Party Transactions shall be reported, identified, prevented and managed. 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.

#### **G. DUTIES AND RESPONSIBILITIES/ROLES AND FUNCTIONS OF THE 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, 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. A group-wide RPT policy shall be adopted, encompassing all entries within the group, taking into account their size, structure, risk profile and complexity of operations;
2. To approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the Board of Directors.

All final decisions of the Board on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board and stockholders' meetings.

The following requires prior approval of the Board:

- a. all material credit and non-credit related party transactions endorsed by the Related Party Transactions Committee;
- b. any renewal or material changes in the terms and conditions of related party transactions;

- c. all DOSRI transactions regardless of amount as required under existing rules;
- d. all related party transactions approved by the Excom and other authorized management committees that are below the material threshold;
- e. all write-offs of material exposures to related parties;
- f. breaches in internal limits for individual and aggregate exposures to related parties; and
- g. governing policy on related party transactions and all subsequent changes thereto.

Any member of the Board who has an interest in the transaction must abstain from the deliberation and approval of any related party transaction.

- 3. To delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of Directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings;
- 4. To establish an effective system to:
  - a. Determine, identify and monitor related parties and RPTs;
  - b. Continuously review and evaluate existing relationships between and among businesses and counterparties; and
  - c. Identify, measure, monitor and control risks arising from RPTs.

The system shall be able to define related parties' extent of relationship with the Company; assess situations in which a non-related party (with whom the Company has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the IC and audit functions for review. Any changes in the policies and procedures shall be approved by the Board of Directors.

- 5. To maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Company is well-insulated from any going concern issue of related parties;
- 6. 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 RPT that are raised. The Board should take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals; and
- 7. To constitute an RPT Committee.



## **H. THE RELATED PARTY TRANSACTIONS COMMITTEE**

### **1. COMPOSITION**

The Related Party Transactions Committee shall be composed of at least three (3) members of the Board of Directors, two (2) of whom shall be independent directors, including the chairperson. The Committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The Compliance Officer or Internal Auditor may sit as resource persons in the said Committee.

### **2. RESPONSIBILITIES**

- a. Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships shall be reflected in the relevant reports to the Board and regulators/ supervisors;
- b. The Related Party Transactions Committee is vested with the authority to review any credit and noncredit transaction with a related party that is within the specified materiality threshold prior to the approval of the Board. To fulfill its mandate, the Committee shall conduct a comprehensive review of the transactions focusing on the terms and conditions, the business purpose, the justifications in entering into these transactions and compliance with the rules and regulations on Related Party Transactions. In determining whether to ratify or not a Related Party Transaction, the Committee shall consider the following factors, among others, to the extent relevant to the proposed Related Party Transaction:
  - i. The related party's relationship to the Company and interest in the transactions;
  - ii. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - iii. The benefits to the Company of the proposed RPT;
  - iv. The availability of other sources of comparable products or services;
  - v. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs;
  - vi. Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Company;
  - vii. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction; and
  - viii. Whether the Related Party Transactions would present an improper conflict of interest for any director or senior officers of the Company, taking into account the size of the transaction and the significant influence of the senior officer in the outcome of the transaction.

After considering all these factors, the Committee shall decide if the transaction is in the ordinary course of business and meets the arm's length requirements. It shall then endorse this transaction to the Board for approval.

Any member of the Committee who has a potential interest in any Related Party Transaction shall abstain from the discussion and endorsement of the Related Party Transaction.

- c. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the Company's affiliation or transactions with other related parties;
- d. Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties;
- e. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process; and
- f. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

## **I. ROLES OF SENIOR MANAGEMENT AND SELF-ASSESSMENT FUNCTIONS**

### **1. SENIOR MANAGEMENT**

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 Company's policy and IC's regulations.

### **2. INTERNAL AUDIT**

The internal audit function shall conduct a period formal review of the effectiveness of the Company'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. COMPLIANCE**

The compliance function shall ensure that the Company 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 Company'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 Company.

#### **J. REPORTING OF RELATED PARTY TRANSACTIONS**

1. A monthly report shall be submitted to the Board through the Related Party Transactions Committee for the individual and aggregate exposures to each related party including the status thereof.
2. The Company shall report to the IC 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.
3. The Company shall submit a report to the IC on material exposures to related parties, which shall include the material RPTs of its non-financial subsidiaries and affiliates (Annex "B"), within 20 calendar days after the end of the reference quarter. Supervised non-financial subsidiaries and affiliates are therefore expected to report their material RPTs to the parent company, which in turn shall report the same to IC. The Company shall furnish a copy of the said report to its parent company, BDO Unibank.

#### **K. WHISTLE BLOWING MECHANISMS, RESTITUTION OF LOSSES AND REMEDIES FOR ABUSIVE RPTs**

Reporting and investigation of abusive RPTs shall be handled following the Company's existing code of conduct and Whistleblowing Guidelines, while restitution of losses and remedies for abusive RPTs shall be handled following the Company's Cases Review Guidelines.

#### **L. DISCLOSURE OF RELATED PARTY TRANSACTIONS**

The salient points of the policy will be published in the Company's website at <https://www.bdo.com.ph/bdolife/home>.

The Company shall adequately disclose in its Annual Report, if applicable, the overarching policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts 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.

The material Related Party Transactions including write-off of material exposures to related parties shall be submitted for confirmation by majority vote of the stockholders in the Annual Stockholders' Meeting. This information will also be published in the Company's Annual Report.

#### **M. POLICY REVIEW AND IMPLEMENTATION**

This policy shall be reviewed by the Compliance Office as and when any changes are to be incorporated in the policy due to changes in regulation and/or amendments to existing laws. It shall ensure also the proper implementation of the policy across the Company's subsidiaries and affiliates.

#### **N. EFFECTIVITY OF THE POLICY**

This Related Party Transactions Policy approved by the Board of Directors on 26 October 2017 shall take effect immediately.