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Allianz PNB Life Insurance Related Party Transactions Policy

Allianz PNB Life Policy

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I. Policy Statement

The Board of Directors, Management and Staff of the Allianz PNB Life Insurance, Inc. (the Company) commit themselves to adopt and adhere with the Policy Guidelines on Related Party Transactions (RPTs). These guidelines were formulated in accordance with the Insurance Commission Circular Letter No. 2017-29 (dated May 2, 2017) and the Philippine National Bank's Revised RPT Policy Manual (dated August 2016).

The Company recognizes the importance of establishing and maintaining policies and procedures governing transactions between related parties, to ensure that these transactions are only undertaken on an arm's length basis for the financial, commercial and economic benefit of the Company and the entire group where the Company belongs. RPTs shall be conducted in the regular course of business and not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances.

The Board, through the RPT Committee (RPTC), exercises appropriate oversight in the implementation of these guidelines.

II. Definitions

Related parties - the Company's subsidiaries as well as affiliates and special purpose entities that the Company exerts direct or indirect control over or that exerts significant influence over the Company; 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 persons or juridical entities whose interests may pose potential conflict with the interest of the Company, hence, is identified as a related party.

Control of an enterprise exists when there is:

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

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.

Close family members are persons related to the Company'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 COMPANY's DOS.

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

The Materiality Threshold is 15% of the average projected statutory net income of the COMPANY over the next three (3) years. This is the 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 also be set for each type of

transaction and for each related party group, depending on the nature of the transaction and risks involved.

Related party transactions are transactions or dealings with related parties of the COMPANY, regardless of whether or not a price is charged. These shall include, but not limited to the following:

1. On- and off-balance sheet credit exposures and claims and write-offs;
2. Investments and/or subscriptions for debt equity issuances;
3. Consulting, professional, agency and other service arrangements/contracts;
4. Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
5. Construction arrangements/ contracts;
6. Lease arrangements/contracts;
7. Trading and derivative transactions;
8. Borrowings, commitments, fund transfers and guarantees;
9. Sale, purchase or supply of any goods or materials; and
10. 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.

III. Guidelines in Ensuring Arms' Length Transactions

1. The company shall ensure that RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. The company shall have an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the COMPANY and its stakeholders.
2. *Conflicts of interest.* The COMPANY shall identify and prevent or manage 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. Employees, Officers or directors who have been remiss in their duties in handling RPTs shall be dealt with in accordance with the Code of Business Conduct.
3. *Excluded Transactions.*
 - a. Policy Contracts issued to Related Parties in the normal course of business and on terms not any more favourable than those issued to other policy owners shall not be considered Related Party Transactions;
 - b. 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.
4. *Internal limits for individual and aggregate exposures.* To ensure that RPTs are within prudent levels, the COMPANY cannot at any time have a total annual aggregate

exposure to a related party in an amount exceeding 15% of the Net Asset Value of the COMPANY. 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. The COMPANY may, in addition to these limits which shall be complied with at all times, include 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. The internally set limits shall be tied in with the COMPANY's internal definition of capital. Breaches in limits shall be reported to the board of directors with the decision of the board to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meetings.
6. *Whistle blowing mechanisms.* All employees shall be encouraged to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs, in accordance with the COMPANY's Whistle Blowing Policy.

IV. The Role of the Board of Directors

1. 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, stockholders and other stakeholders. Towards this end, the Board of Directors shall carry out the following duties and responsibilities:

- a. To approve and periodically review this Policy;
- b. To constitute and create a Related Party Transactions Committee that will exercise primary oversight over RPTs on behalf of the board;
- c. To require management to periodically review and update the inventory of related parties to capture organizational and structural changes in the COMPANY and its related parties;
- d. To approve all RPTs above the Materiality Threshold ("Material RPTs");
- e. To periodically review the Materiality Threshold and revise it as needed, to ensure that the threshold is 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 also be set for each type of transaction and for each related party group, depending on the nature of the transaction and risks involved.
- f. To require management to periodically report all RPTs and ratify or invalidate all non-material RPTs;
- g. To write-off material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting;
- h. To approve any renewal or material changes in the terms and conditions of Material RPTs.

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.

- i. To delegate to the Management Committee the approval of non-material RPTs; and
- j. To require the recovery of losses or opportunity costs incurred by the COMPANY arising from RPTs that are not engaged on arm's length terms.

V. The Role of the RPT Committee

1. The RPT 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. The Related Party Transactions Committee will exercise primary oversight over RPTs on behalf of the board. Their duties and responsibilities shall include:

- a. To 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.
- b. To evaluate all Material RPTs to ensure that these are at arms' length basis, and endorse the same to the board of directors for approval.
- c. To perform any other tasks that will enable it to exercise on behalf of the Board primary oversight over RPTs.

VI. The Role of Management and the Management Committee

1. The manager of all employees processing transactions shall do the following:

a. determine whether the transaction is a Related Party Transaction, and if so, assess each proposed transaction's compliance with this Policy; and

b. obtain Management Committee approval prior to the RPT. In the request for approval, the manager shall submit a report (Annex "1" of this Policy) to the Management Committee, which report should contain the following:

- i. Manager responsible for the transaction;
- ii. Names of Parties
- iii. Relationship of the Parties
- iv. Transaction Date
- v. Type of Transaction
- vi. Amount
- vii. Terms

viii. Rationale for entering into the transaction, including terms that show that the transaction is on an arms' length basis as well as any price discovery process that was applied.

ix. Name of person submitting the report

x. Date of submission of the report

The Legal Counsel shall provide guidance on the implementation of this Policy and shall be the custodian of all reports on Related Party Transactions.

2. The Management Committee member concerned shall ensure that all RPTs under his/her purview are identified and the provisions of this Policy are followed.

3. The Management Committee shall:

a. manage and monitor RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an on-going basis to ensure compliance with the COMPANY's policy and IC's regulations;

b. approve and ensure submission of accurate reports to the regulators. The reports include, among others:

i. the report on all entities in the conglomerate structure where it belongs (Annex "A" of IC Circular Letter No. 2017-29). 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.

ii. the report on material exposures to related parties, which shall include the material RPTs of the COMPANY's non-financial subsidiaries and affiliates, if any (Annex "B" of IC Circular Letter No. 2017-29) within 20 calendar days after the end of the reference quarter.

c. maintain adequate capital against risks associated with exposures to related parties.

d. Ensure that this Policy, the responsibility of the RPT Committee, the nature, terms and conditions as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material RPTs, are disclosed in the COMPANY's Annual Report.

4. The Compliance Officer and Internal Auditor shall periodically assess the sound implementation of this Policy.

a. The resulting Audit Reports, including exceptions or breaches in limits, if any, shall be communicated directly to the Audit, Compliance and Risk Management Committee.

b. 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.

Schedule "1"

REPORT TO THE MANAGEMENT COMMITTEE ON RELATED PARTY TRANSACTIONS

Title of Related Party Transaction:

Manager responsible for the transaction	
Names of Parties	
Relationship of the Parties	
Transaction Date	
Type of Transaction	
Amount	
Terms	
Rationale for entering into the transaction (including terms that show that the transaction is on an arms' length basis as well as any price discovery process that was applied)	
Name of person submitting the report	
Date of submission of the report	