**RELATED PARTY TRANSACTION (RPT) POLICY**

**1. INTRODUCTION**

The Insurance Commission (IC) 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 arm’s length basis for financial, commercial, and economic benefit of the given Covered Institution (CI) and the entire group where the said institution belongs. The IC expects that every single CI including its subsidiaries and affiliates, to exercise appropriate oversight and implement effective control systems for managing for managing said exposures as these may potentially lead to abuses that are disadvantageous to the CI and its policyholders, members, plan holders, card holders, claimants, creditors, fiduciary clients, and other stakeholders.

With the above, the IC issued Circular Letter (CL) No. 2017-29 in May 2, 2017 detailing the guidelines on related party transaction for IC’s covered institutions.

The following are the highlights of the above issuance:

a) Providing definition of Related Party and Related Party Transactions (RPTs);

b) Defining the duties and responsibilities, roles and functions of the CL’s Board of Directors;

c) Requiring the constitution of an RPT committee;

d) Defining the responsibilities of the RPT committee;

e) Defining the roles of the Senior Management and Self-Assesment functions;

f) Requiring sets of disclosures in the Annual Report concerning related parties and related party transactions;

g) Requiring the Board to approve all material RPTs as well as write off of material exposures to related parties and giving the Board power to delegate the appropriate management committee the approval of RPTs that are below the materiality threshold.

This Policy ensures fairness and transparency in transactions with related parties, protecting minority investors and complying with SEC Memorandum Circular No. 10, Series of 2019 and the Code of Corporate Governance for Publicly-Listed Companies (SEC MC No.19, Series of 2016).

**2. SCOPE**

This Policy covers related parties as defined herein. This Policy covers all entities within the company, including subsidiaries, affiliates, and associates, considering their size, structure, risk profile, and operational complexity.

**3. OBJECTIVES**

3.1 To define related party and related party transactions;

3.2 To set the materiality threshold for RPTs;

3.3 To prescribe processes and procedures in the preparation of reports required by the IC.

**4. DEFINITIONS**

1. Related Parties:
   1. Directors, officers, substantial shareholders (beneficial owners of >10% equity), and their spouses/ relatives within the fourth civil degree of consanguinity or affinity.
   2. Parent/ subsidiary/ affiliate/ associate/ joint venture entities where the company or a related party has control, joint control, or significant influence.
2. Material RPT
   1. Transactions amounting to 10% or more of the Company’s consolidated total assets (based on the latest audited financials).
   2. Include aggregate transactions with the same related party over a 12-motnh period.
3. Abusive RPT
   1. Material transactions not conducted at arm’s length and unduly favoring a related party.
4. Arm’s Length Terms
   1. Ensure no preferential treatment for related parties compared to unrelated parties under similar circumstances.

**5. POLICY STATEMENT**

VC shall ensure strict and consistent compliance with laws and regulations involving transactions with its Directors, Officers and Stockholders (DOS), Affiliates and Other Related Parties. For this purpose, VC shall submit to the IC, as required under Circular Letter (CL) No. 2017-29 (a) disclosure report of all entities in the conglomerate structure where it belongs, (the “Conglomerate Map/ Organizational Structure”) and (b) a report on material exposures to related parties (the “Report on Material Related Party Transaction”).

**6. POLICY GUIDELINES**

6.1 This Policy Framework aims to establish the standard for evaluating, identifying and accounting of relationships and transactions between companies and parties. A related party to VC can be VC’s subsidiaries as well as affiliates and special purpose entities that VC exerts direct/ indirect control over or that exerts significant influence over VC; 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 interest may pose potential conflict with the interest of VC, hence, is identified as a related party.

6.2 Close family members are persons related to the CL’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, grandparent-in-law, and grandchild-in-law of VC’s Board of Directors, Officers of VC with rank of Business Director or higher, and Stockholders.

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

6.4 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.

6.5 Control of an enterprise exists when there is:

6.5.1 Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or

6.5.2 Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or

6.5.3 Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or

6.5.4 Any other arrangement similar to any of the above.

**7. DUTIES AND RESPONSIBILITIES**

1. Board of Directors (BOD)
   1. Approves all material RPTs, two-thirds (2/3) vote required.
   2. Establishes an audit/ risk/ compliance system to identify, monitor, and control RPT risks.
2. Audit Committee
   1. Reviews all material RPTs, ensuring they are not biased.
   2. Appoints an External Independent Party (EIP) (e.g., auditing firm) to assess the fairness of material transactions.
3. Senior Management
   1. Implements controls to manage RPTs on a per-transaction and aggregate basis.
4. Internal Audit
   1. Periodically reviews the effectiveness of internal controls for RPTs.
5. Compliance Officer
   1. Ensures Policy Compliance and updates it to reflect regulatory changes.
6. Related Party Disclosure
   1. Board Members, substantial shareholders, and officers must disclose their financial interest in RPTs.

**8. RELATED PARTY TRANSACTION (RPT)**

The following is a list of RPTs, the transaction amount required to consider the RPT a Material Transaction, and the corresponding vetting committee for each materiality threshold:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **TRANSACTION TYPE** | **MATERIALITY THRESHOLD** | |
|  |  | **Management Committee** | **RPT Committee** |
| a. | On-and off-balance sheet credit exposures and claims and write-offs | Up to P5M | Over P5M per transaction per contract |
| b. | Investments and/ or subscriptions for debt/ equity issuances | n/a | In excess of the limits indicated in the Investment Policy Statement |
| c. | Consulting, professional, agency and other service arrangements/ contracts/ agreements | Cumulative P20M per counterparty | Over P20M (cumulative) per counterparty |
| d. | Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements) | Up to P5M per transaction per contract | Over P5M per transaction per contract |
| e. | Construction arrangements/ contracts | Cumulative P5M per counterparty | Over P5M per counterparty |
| f. | Lease arrangements/ contracts | Up to P5M per transaction per contract | Over P5M per transaction per contract |
| g. | Trading and derivative transactions | n/a | In excess of the limits indicated in the Investment Policy Statement |
| h. | Borrowings, commitments, fund transfers and guarantees | Up to P5M per transaction | Over P5M per transaction |
| i. | Sale, purchase or supply of any goods or materials | Up to P5M per transaction per contract | Over P5M per transaction per contract |
| j. | Establishment of joint venture entities | n/a | Regardless of contribution |

8.1 Insurance coverage/ transaction are vetted through the appropriate Committees/ approving authorities, as indicated in the following Regulations/ Guidelines:

a) R-UW-06 Underwriting Acceptance Limit

b) G-S&U-08 Underwriting Manual

8.2 This RPT Policy excludes regular trade transactions involving purchase and sales of debt securities traded in active market.

8.3 RPTs 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.

8.4 Any clarification on whether or not a transaction should be classified as “Related Party Transaction” shall be referred to Risk Management Department of VC.

**9. RPT APPROVAL**

9.1 RPTs are not prohibited provided that the RPTs are approved by the appropriate authority, conducted at arm’s length basis and disclosed and reported as required under this Policy.

9.2 RPTs that are classified as Material Transaction, as defined in Section 6, shall be vetted by the RPT Committee.

9.3 RPTs that are classified as below the Material Threshold, as defines in Section 6, shall be vetted by the Management Committee.

9.4 If RPT is deemed urgent, the approval by the corresponding approving authority could be coursed through email. This will just then be formalized on the date of the official meeting of the RPTC.

9.5 Once the RPT has been vetted, the approval to proceed with the transaction follows the R-CA-032 which defines the Company’s Operating Expense and Disbursement Authority Limits.

**10. RPT VETTING**

10.1 All RPTs shall be submitted for vetting prior to approval and/ or implementation.

10.2 Vetting is a process wherein a specific body (e.g. RPTC, Management Committee) reviews and ensures that RPT terms are arm’s length.

10.3 An RPT is deemed conducted at arm’s length terms when it is done in the regular course of business of VC and are not undertaken on more favorable economic terms (e.g., interest of rates, price, fees, commissions, tenor, collateral requirements, etc.) than similar transactions with unrelated parties under similar circumstances. Further, the RPT should be engaged into at terms that promote the best interest of VC and its stakeholders. Vetting may thus include comparison of RPT terms with the terms granted to non-related parties under comparable circumstances and conditions.

10.4 Vetting is not itself the approval of the credit or non-credit transaction.

10.5 Related Party Transaction Committee (RPTC) is a Board level committee tasked to review and endorse RPTs that are classified as Material Transactions.

10.6 The RPTC shall be composed of at least three (3) Independent and/ or Non-Executive members of the VC Board, the majority of whom shall be Independent Directors. The Chairperson must be an Independent Non-Executive Director of the Board. Majority of the members, regardless of position, shall constitute a quorum.

10.7 The Chief Compliance Officer (CCO)/ Chief Risk Officer (CRO)/ Internal Auditor (Chief Audit Executive) may sit as resource persons in the RPT Committee.

10.8 The authority, responsibility, membership and operation of RPTC are provided in detail in the RPTC Charter.

10.9 RPTs involving amounts below the materiality threshold shall be vetted by the Management Committee.

10.10 In case a member of the management or RPT committee has conflict of interest in a particular RPT, he/ she should inhibit from the evaluation, endorsement and/ or approval process of the particular RPT. In the event a member of the Management Committee directly supervises the recommending unit of the RPT, he shall abstain from vetting the same.

10.11 Conflict of Interest and handling of personnel, officers or directors who have been remiss in their duties are governed by the Manual of Corporate Governance, Employee Code of Conduct and the specific HR policies. Persons who refuse to fully disclose the extent of their business interests shall be subject to temporary disqualification from their office.

**11. APPROVAL PROCESS**

11.1 Conflict of Interest

* + 1. Related parties with personal interests must abstain from discussions/ approvals (their votes are not counted)

11.2 Approval Tiers

a. P5-10 Million upon approval of the Audit Committee

b. P10 Million Materiality Threshold:

* Audit Committee evaluation; and
* Board Approval

c. Material RPTs:

* Audit Committee review;
* Board approval (two-thirds (2/3) vote, majority of independent directors)

11.3 Shareholder Ratification

If the EIP Report deems terms unfair, the transaction must be ratified by two-thirds (2/3) of shareholders.

**12. RPT MONITORING/ INDIVIDUAL AND AGGREGATE LIMITS**

The Board, through RPTC, shall establish an effective system to determine/ identify Related Parties, monitor Related Party exposure and implement RPTs.

a. Internal Limits for Individual and Aggregate Credit Exposure

i. To ensure that RPTs are within prudent levels, the VC Board shall prescribe, from time to time, internal limits or sub-limits for individual and aggregate credit exposures to a related party and for aggregate exposures to all related parties that are consistent with the VC’s risk appetite, risk profile and capital strength.

ii. The Related Party Transaction Committee (RPTC) shall report to the Board, on a semi-annual basis, the status and aggregate credit exposure of VC to each related party as well as the total amount of credit exposure to all related parties to ensure compliance to limits set by the Board.

b. The VC’s Compliance & Legal Department as well as the VC IA shall perform periodic post verifications of RPTs within the materiality threshold required to be endorsed by the RPTC and approved by the appropriate body, to ensure that the terms and conditions as endorsed and approved are properly and correctly implemented.

c. Quarterly post verification of RPTs shall be performed, as follows, to ensure that the terms and conditions as endorsed and approved by the appropriate body are properly and correctly implemented.

1. Below material transactions – VC’s Compliance and Legal Department and

2. Material transactions – VC Internal Audit

To ensure accountability, proper documentation and compliance, VC shall:

a. Maintain a Related Party registry, to track relationships and changes; and

b. Conduct annual independent reviews of RPT policies and procedures.

**13. PRICE DISCOVERY MECHANISMS**

Use methods like:

a. External expert evaluations;

b. Competitive bidding process; and/ or

c. Publication of assets for sales.

**14. DISCLOSURE AND REGULATORY REPORTING**

VC 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 RPT.

A regular reporting of aggregate exposures to the Board and regulatory authorities must be held. Which includes details of RPTs in financial statements and stockholders’ meetings.

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

a) VC 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.

b) VC shall submit a report on material exposures to related parties, which include the material RPTs of its non-financial subsidiaries and affiliates, (Annex B) within 20 calendar days after the end of the reference quarter.

c) The consolidated report on Material RPT shall be jointly endorsed/ signed by the VC’s Compliance & Legal and Risk Officer prior to submission to the President or his representative for signature.

d) The VC Finance Department shall be responsible for the transmission of all required RPT reports to the IC.

e) Any contract with recurring payment transaction such as lease contracts, should only be reported once, upon approval of said transaction by the applicable approving authority.

f) In case the parties involved in a RPT are both IC-related entities, only the lessor, in case of a lease contract, shall submit the individual report on Material RPT.

This Policy aligns with Philippine Corporate Governance Standards, ensuring Transparency and ethical conduct in related party transactions.

**15. RESPONSIBILITIES OF UNITS WITH RPTS**

To implement the requirements of this RPT Policy, the Proponents, in coordination with the Compliance & Legal and Risk Management Office shall ensure and cause the following:

a. Establishment of the Related Party’s relationship to VC and interest in the transaction;

b. Disclosure of material facts as regards the proposed RPT, including the aggregate value of the transaction;

c. Proper evaluation of the benefits to VC of the proposed RPT;

d. Identification of the availability of other sources of comparable products or services;

e. Assessment of whether the transactions involving the Related Party/ies are conducted at arm’s length basis which means that the terms and conditions of the transaction must be no less favorable to VC than the terms generally available to a non-related party under the same or similar circumstances;

f. Via query facility, selection of identified Related Party/ies in the application system will be done, to facilitate the generation of data required for the preparation of reports such as, but not limited to, the Report on Material Related Party Transaction.

**16. WHISTLE BLOWING POLICY**

The VC Whistle Blowing Policy shall also apply to RPTs.

**17. REVISION**

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