



COUNTRY BANKERS INSURANCE CORPORATION

Guidelines on Related Party Transactions

October 24, 2017

Country Bankers Insurance Corporation engage in non-life insurance and/or surety business to protect the insured against financial loss suffered by him or on the creation of liability, due to the causes covered by the policy in exchange for the payment of premium for the assumption of risk of loss.

Hence, it is the primary obligation of CBIC as insurance company to meet its liabilities to policy owners as and when they fall due. This places a fiduciary duty on directors, stockholders and officers and employees to act in the best interest of the company and its policy owners by:

- ensuring that there is effective compliance with existing laws, rules and regulations at all times,
- transactions are conducted on an arm's length basis,
- and that no stakeholder is unduly disadvantaged.

To protect CBIC and its policyholders, members, claimants, creditors, clients, and other stakeholders, CBIC exercise appropriate oversight and implement effective control systems for managing related party transactions. The company ensures the fairness and transparency of related party transactions between and among Country Bankers Insurance Corporation, directors, officers and stockholders including their close family members and of the corresponding persons in affiliated companies and their close family members.

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I. Definition of Terms

- a. **Related parties** - cover the CBIC's affiliates that the company exerts direct/indirect control over or that exert significant influence over CBIC; 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 CBIC, hence, is identified as a related party

- b. **Close family members** - are persons related to the CBIC'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 CBIC's DOS.
- c. **Corresponding persons in affiliated companies** - are the DOS of the affiliated companies and their close family members.
- d. **Control** - 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. (Under Section 290 of the Insurance Code, as amended by R.A.10607).

Further, control of an enterprise exists when there is:

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

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

(1) Shares owned or held are exclusively for investment purposes;

(2) CBIC 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) CBIC stockholder will have only limited contacts with the management that are customary for interested shareholders;

(4) CBIC stockholder will engage only in normal and customary transactions with the enterprise; and

(5) CBIC will not pledge the shares acquired to secure a loan with any institution.

e. Related party transactions - are transactions or dealings with related parties of the CBIC, regardless of whether or not a price is charged.

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.

II. Duties and Responsibilities/Roles and Functions of the CBIC'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, claimants, creditors and other stakeholders.

Towards this end, the Board of Directors shall carry out the following duties and responsibilities:

III.A. 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.

III.B. 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.

III.C. 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.

III.D. 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.

III.E. To maintain adequate capital against risks associated with exposures to related parties.

III.F. To oversee the integrity, independence, and effectiveness of the policies and procedures for whistle blowing. 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.

III.G. To constitute an RPT Committee.

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.

III. Related Party Transactions Policies

The RPT policies shall include, but not limited to the following:

a. Related parties of CBIC

- Refers to the person or juridical entity that CBIC exerts direct/indirect control over or that exert significant influence over CBIC and these include:

- o Directors:
 - Nestor D. Alampay
 - David M. Consunji
 - Alfredo Alex S. Cruz III
 - Agnes Sison Desiderio
 - Ernestine Carmen Jo D. Villareal-Fernando
 - Geraldine Desiderio- Garcia
 - Maria Victoria G. Guingona
 - Dennis H. Locsin
 - Roberto L. Montelibano
 - Antolin T. Naguiat
 - Manuel Y. Petines
 - Juan Miguel P.S. Reyes
 - Romeo G. Velasquez

- o Executive Officers:

▪ Maria Victoria G. Guingona-	Chairwoman
▪ Romeo G. Velasquez -	President
▪ Geraldine Desiderio- Garcia -	Senior Vice President and General Manager
▪ Antolin T. Naguiat -	Treasurer
▪ Alfredo Alex S. Cruz III -	Corporate Secretary
▪ Luisito V. Bautista -	Vice President for Marketing

- o Stockholders:

- o Close family members of the above directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law.

- o Affiliate: Country Bankers Life Insurance Corporation

b. Coverage of RPT

A related-party transaction refers to the transfer of assets or liabilities, or the performance of services, by, to or for a related party irrespective of whether a consideration is given.

Related party transactions of CBIC include but are not confined to:

- On-and off-balance sheet credit exposures and claims and write-offs; investments and/or subscriptions for debt/equity issuances;
- Consulting, professional, agency and other service arrangements/contracts
- Purchases and sales of assets, including transfer of technology and intangible items
- Lease arrangements/contracts;
- Borrowings, commitments, fund transfers and guarantees or undertakings;
- Agency agreements
- Reinsurance arrangements
- Payments for insurance coverage and insurance claims settlement

c. RPTs shall be entered in an arm's length terms as follows:

- (i) The transaction must not be prejudicial to the interests of the insurer, its policy owners, claimants or creditors;
- (ii) The terms and conduct of the transaction must be in compliance with relevant requirements of the Insurance Commission circulars and other applicable laws and regulations;
- (iii) The transaction must not result in an impairment of the insurer's financial condition;
- (iv) Terms of the transaction must be fair and reasonable. The determination of fair and reasonable terms should be made with reference to an independent valuation or arm's length commercial terms;
- (v) Payment for insurance premiums from any party (whether or not related to the insurer must be in the form of cash or cash equivalents. Terms of payment afforded to related parties should also be no more favorable than that generally allowed for other customers.
- (vi) Full disclosure of the nature and extent of all related-party transactions (irrespective of amounts involved) shall be made to the board of directors of the insurer. In the case of reinsurance, disclosure need not be made for each reinsurance cession, but disclosure of the nature and extent of automatic reinsurance arrangements involving related parties should be made to the board;

- (vii) The books, accounts and records of the insurer shall be maintained so as to clearly and accurately disclose the precise nature and details of the transactions.
- (viii) CBIC may acquire the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale to ensure that transactions are engaged into at terms that promote the best interest of CBIC and its stakeholders.

d. Conflict of interest

Potential conflict of interest on the RPTs shall be identified, prevented or properly managed to protect the interest of the stakeholders.

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 CBIC. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting CBIC.

e. Materiality thresholds

All related-party transactions (excluding reinsurance cessions) involving an amount per transaction/contract exceeding the lower of Php250,000 or 1% of the insurance fund surplus determined at the end of the preceding financial year are deemed material transactions and shall be subject to the approval of the board.

Board approval may be in the form of underwriting authority delegated by the board to the management of an insurer under documented board approved internal underwriting guidelines/ procedures for the provision of insurance cover to related parties.

f. Internal limits for individual and aggregate exposures.

To ensure that RPTs are within prudent levels, shall include internal limits or sub-limits for individual and aggregate exposures to related party and for aggregate exposures to all related parties that are consistent with the CBIC's risk appetite, risk profile and capital strength.

The internally set limits shall be tied in with the CI'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.

g. Whistle blowing mechanisms

Consistent with the company's values and codes of conduct, employees shall communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs.

RPTs of legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the board itself.

h. Restitution of losses and other remedies for abusive RPTs.

Losses or opportunity costs incurred by CBIC arising from RPTs that are not engaged on arm's length terms shall be recovered.

To confirm if RPTs occurred not in conformance to arm's length terms; an Investigating Committee will be created by the RPT Committee to verify the transactions and to determine the losses and opportunity costs incurred by CBIC.

Procedures followed by the Investigating Committee, with reference to the CBIC Anti-Fraud Plan may be considered by RPT and Investigating Committee in conducting evaluation and investigation.

Applicable provisions of the Manual on Corporate Governance will be considered also in the course of evaluation and investigation.

IV. Responsibilities of the RPT Committee

The RPT Committee shall:

- 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.
- Evaluate all material RPTs to ensure that;
 - these are 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 and;
 - that no corporate or business resources of CBIC are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.

In evaluating RPTs, the Committee shall take into account, among others, the following:

- a. The related party's relationship to CBIC and interest in the transactions;
- b. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- c. The benefits to CBIC of the proposed RPT;
- d. The availability of other sources of comparable products or services; and

- e. 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. CBIC shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

All RPTs that are considered material based on CBIC's internal policies shall be endorsed by the RPT Committee to the board of directors for approval.

- Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the CBIC'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 CBIC's affiliation or transactions with other related parties.
- 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.
- Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
- Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

V. Roles of Senior Management and Self-Assessment Functions

- 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 CBIC's policy and IC's regulations.
- The internal audit function shall conduct a periodic formal review of the effectiveness of the CBIC'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.
- The compliance function shall ensure that CBIC 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 CBIC'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 CBIC.

VI. Disclosure and Regulatory Reporting of Related Party Transactions

The following shall be disclosed in the CBIC's 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

VII. Implementation and Enforcement

The Directors, officers and department heads of the company shall be provided with a copy of this manual to ensure dissemination to all employees and related parties, and