

BPI PHILAM LIFE ASSURANCE CORP.  
**Related Party Transactions (RPT) Policy**

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# Document Details\*

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<b>Primary Policy Contact Person</b>	Ace Devino Custodio
<b>Secondary Policy Contact Person</b>	Imelda L. Fortugaleza
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**DISTRIBUTION LIST**

<b>TITLES</b>
Board of Directors
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## 1. Preamble

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The BPI Philam Life Assurance Corp. (BPLAC), (hereinafter referred to as “the Company”) recognizes the importance of establishing and maintaining policies and procedures for transactions between related parties. The Company is mandated to ensure that such 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 it belongs. The Company, including its subsidiaries and affiliates, is expected to exercise appropriate oversight and implement effective control systems for managing said exposures.

## 2. Introduction

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### 2.1. Purpose and Background

The Company recognizes that transactions between and among related parties create financial, commercial and economic benefits to the Company and to the entire group where it belongs, and the Company has the corresponding duty to exercise appropriate oversight and implement effective control systems for managing RPTs to ensure that the interest of the Company, its shareholders, policyholders, clients, creditors, and other stakeholders are adequately protected.

Further, compliance with the Insurance Commission and other regulations pertaining to related party transactions is critical to the Company. Contravention of these regulations may lead to sanctions and reputational damage to the Company.

This Policy is therefore adopted to ensure that there is an effective compliance with existing laws, rules and regulations at all times; that all related party transactions are conducted on an arm’s length; and that no stakeholder is unduly disadvantaged. It is imperative that all directors, officers, and employees of the Company are fully aware and are mandated to comply at all times with the protocols on related party transactions as set forth in this Policy.<sup>1</sup>

## 3. Scope and Definitions

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### 3.1. Scope

The coverage of the Policy shall capture a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/specific risk or potential abuse to the Company and its stakeholders.

### 3.2. Definitions

For purposes of this Policy, the following definitions shall apply:

- a. **Related Parties** shall cover the Company’s subsidiaries as well as affiliates and special purpose entities that the Company exerts direct/indirect control over or that exerts significant influence over the Company; the directors, officers, stockholders and related

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<sup>1</sup> AIA Group Connected Transactions and Notifiable Transactions Compliance Policy

interests (DOSRI); 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 Company.

- b. Close Family Members** are persons related to the Company's directors, officers, and stockholders 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.
- c. Corresponding Persons** are the DOS of affiliated companies and their close family members.
- d. Related Interest<sup>2</sup>** 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 the 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;
  - (4) Corporation, association, or firm of which a director or officer of the Company, or his spouse is also a director or officer of such corporation, association or firm, except:
    - (a) where the securities of such corporation, association or firm are listed and traded in the domestic stock exchanges and less than fifty percent (50%) of the voting stock thereof is owned by any one person or by persons related to each other within the first degree of consanguinity or affinity; or,
    - (b) where the director, officer or stockholder of the Company sits as the Company representative in the board of directors of such corporation: Provided, That the Company representative shall not have any equity interest in the other corporation except for the minimum shares required by law, rules and regulations, or by the by-laws of the corporation: Provided, further, that the other corporation is not among those mentioned in items 5, 6, 7 and 8 of this item;
  - (5) 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 twenty percent

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<sup>2</sup> BSP Circular No. 423 (Series of 2004)

(20%) of the subscribed capital of such corporation, or of the equity of such association or firm;

(6) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items 2, 4 and 5 of this Section.

(7) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the Company or which controls majority interest of Philam Life.

(8) Corporation, association or firm in which the Company and/or its parent/subsidiary holds or owns at least twenty percent (20%) of the subscribed capital of such corporation, or in the equity of such association or firm, or has an existing management contract or any similar arrangement with the Company or its parent/subsidiary.

**e. Control** is presumed to exist if any person directly or indirectly owns, controls, or holds with the power to vote 30%<sup>3</sup> 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 person. On the other hand, Control of an enterprise exists when there is:

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

Should the Company choose to disclaim or rebut the above 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 area customer 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.

**f. Significant influence** is the power to participate in the operating and financial policy decisions of an entity. It may stem from share ownership, statute or agreement and may be exercised by representation on the board of directors, participation in the policy-making

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<sup>3</sup> AIA Group Connected Transactions and Notifiable Transactions Compliance Policy, page 5.

process, material inter-company transactions, interchange of management personnel and dependence on technical information.<sup>4</sup>

- g. Officers** shall refer to employees with a rank of Vice President and up or its equivalent.
- h. Stakeholders** refer to individual, organization or society at large who can either affect and/or be affected by the Company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.
- i. 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, 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 agreement);
  - (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 related party.

For disclosure requirements on related parties and related party transactions in the Company's financial statements, Finance shall make reference to the relevant accounting standards.

- j. Conglomerate** is a group of companies that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent company. For purposes of this Policy, it shall exclude those corporations or business whose shares are owned or held exclusively for investment purposes only.
- k. Holding Company** means any person who directly or indirectly controls BPI Philam.<sup>5</sup>
- l. Holding Company System** means a holding company together with its controlled insurers and controlled persons<sup>6</sup>

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<sup>4</sup> PAS 24

<sup>5</sup> Section 290 (c), Insurance Code

<sup>6</sup> Section 290 (f), Insurance Code

## **4. RPT Approval Process**

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### **4.1. Determination of the Nature of Transaction**

All transactions of the Company must be properly screened to determine if they are between related parties and thus fall within the purview of this Policy. To determine if a transaction is between related parties, the following process must be observed:

- a. All third-party providers must comply with Sourcing's accreditation process, which shall include a declaration or disclosure from said providers on possible related parties or conflict of interest. This is to ensure proper tracking is in place at the beginning of a possible engagement with the Company.
- b. Following the accreditation procedure, Sourcing will flag the Controller of any possible related party transactions as identified in the due diligence process. If Controller confirms that the third-party provider or entity is not a related party, it will notify Sourcing and/or the concerned Business Unit of such fact. Sourcing will then complete the accreditation process and the Business Unit proceed with the transaction with the third-party provider or entity.
- c. Should the Controller, on the other hand, determines that the transaction involves a related party, the Controller will notify Sourcing and the respective Business Unit of such fact, and require them to submit proof or documents that would prove that the transaction is conducted on normal commercial terms; fair and reasonable in the interest of the Company; in the regular course of business; and at arm's length or not undertaken on more favourable economic terms (e.g. price commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under the similar circumstances.
- d. Upon submission of such proof or documents, the Controller shall then endorse the same to the Compliance and Regulatory Committee for appropriate action.
- e. In cases of transactions with affiliates and subsidiaries of the Company, the concerned Business Unit shall also be required to comply with the two (2) preceding paragraphs.
- f. In case of doubt, the Controller may seek the opinion of Legal in determining whether the parties to the transactions are related parties as defined in this Policy.

### **4.2. Guidelines in Ensuring Arm's Length Terms**

Upon endorsement of the transaction, the Compliance and Regulatory Committee shall determine if the transaction is conducted on normal commercial terms; fair and reasonable in the interest of the Company; in the regular course of business; and at arm's length or not undertaken on more favourable economic terms (e.g. price commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under the similar circumstances. In that regard, the concerned Business Unit shall use 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. The price discovery

mechanism may include, but not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, pricing study, canvassing, benchmarking, publication of available property for sale, or any other applicable mechanism.

Likewise in evaluating the transaction, the Compliance and Regulatory Committee shall take into consideration and to the extent applicable, determine whether the proposed transaction includes any reputational risk issues; presents an improper conflict of interest taking into account the size of transaction and the significant influence of any director, officer, stockholder, related interest, or close family members in the outcome of the transaction; the availability of other source sources of comparable products and services; material facts and proposed aggregate value of the transaction; and any other relevant information to allow determination if the terms are comparable to those given to unrelated parties or reasonable under the circumstances.

### 4.3. **Materiality Threshold**

The Company shall set materiality thresholds for RPTs which shall be at a level where omission or misstatement of a transaction could pose significant risk based on the Company's risk appetite, and that could influence the economic decisions of the Board. Materiality threshold may be set for each type of transaction and for each related party group, depending on the nature, scope, frequency and value of the transaction and the risks involved.

	<b>Transaction Type</b>	<b>Materiality Threshold (PhP)</b>
Individuals	-Loans to DOSRI* -All other transactions	4 Million
Corporations, Subsidiaries and affiliates, other Related Interests	-Loans/Advances to/from Shareholders -Fees Paid -All other transactions	50 Million

Every three (3) years, Risk and Finance shall review and recommend the materiality thresholds of the Company which upon favourable endorsement of the Regulatory and Compliance Committee and the Audit and RPT Committee, shall be submitted to the Board for its approval. Justification for the materiality thresholds shall be properly documented.

### 4.4. **Excluded Transactions**

The Company shall also set and identify transactions excluded from the materiality threshold requirement, which shall include among others:

- (1) Regular trade transactions involving purchase and sale of debt securities traded in an active market;

- (2) All financial services the Company renders made in the ordinary course of business provided that the transaction has no policy deviation and the services are on substantially the same terms as those prevailing at the time for comparable services provided to unrelated parties;
- (3) Any transaction where the rates or charges involved in the transaction are fixed by law or regulated by a governmental authority; and,
- (4) Employee salaries and benefits which are considered auxiliary services granted with preferential rates or waivers given to all employees (including senior officers) as part of employee incentives or benefits (e.g. salary or car loans, etc.).

Every three (3) years, Risk and Finance shall review the list of excluded transactions of the Company which, upon favourable endorsement of the Regulatory and Compliance Committee and the Audit and RPT Committee, shall be submitted to the Board for its approval, if there are changes. Justification for the excluded transactions shall be properly documented.

#### **4.5. Internal Limits for Individual and Aggregate Exposures**

To ensure that all RPTs are within prudent levels, the Company has set and adopt certain limits for individual and aggregate exposures to a related party and for aggregate exposures to all related parties that should be consistent with the Company's risk appetite, risk profile and capital strength. The internally set limits shall be tied in with the Company's internal definition of capital.

	<b>Individual Exposure Limit (PHP)</b>	<b>Aggregate Exposure Limit</b>
Individuals	8 Million	Exposure of 15% of OPAT or Php 250 million whichever is higher.
Corporations, Subsidiaries and affiliates, other Related Interests	100 Million	

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. The decision shall be duly documented in the minutes of meetings.

Every three (3) years, Risk and Finance shall review the internal limits for individual and aggregate exposures to RPTs which, upon favourable endorsement of the Regulatory and Compliance Committee and the Audit and RPT Committee, shall be submitted to the Board for its approval.

#### 4.6. RPT Approval

Once the Regulatory and Compliance Committee has determined that the transaction between the related parties is on an arms-length terms, and favourably complies with the guidelines set forth under Section 4.2 of this Policy, the Committee shall approve the transaction that falls below the materiality threshold, and submits the same to the Audit and RPT Committee and the Board of Directors for confirmation.

On the other hand, if the transaction falls within and above the materiality threshold, the Regulatory and Compliance Committee shall endorse the same to the Audit and RPT Committee, who shall approve and likewise endorse said transaction to the Board of Directors for its approval.

All decisions made by the Regulatory and Compliance Committee must be properly recorded in the minutes of the Committee meetings.

The Board of Directors of the Company shall be the final approving authority of all material RPTs. The following shall also require prior Board approval:

- (1) Transactions which the Board may determine as posing significant risk or potential abuse to the Company;
- (2) Any renewal or material changes in the terms and conditions of material RPTs;
- (3) All write-offs of material exposures to related parties;
- (4) Breaches in internal limits;
- (5) Any changes in the RPT policies and procedures; and,
- (6) All RPTs requiring prior regulatory approval.<sup>7</sup>

The following transactions shall also require confirmation by majority vote of the stockholders in the annual stockholders' meeting:

- (1) All transactions that fall within and above the materiality threshold; and
- (2) All write-offs of material exposures to related parties;

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 the stockholders' meetings and duly reflect in the minutes of the Board and stockholders' meetings.

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<sup>7</sup> Insurance Code, Section 299 to 300

## **5. RPT Monitoring and Controls**

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### **5.1. Declarations and Certifications**

The Company shall implement appropriate controls to effectively identify, manage and monitor related parties and 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 the Insurance Commission's regulations. In that regard, the following certifications must be submitted prior to entering into any RPT:

- (1) Annual Declaration/Certification. Directors and Officers are responsible in declaring any RPT and material interest that they or an immediate family may have on a transaction with the Company. The Office of the Corporate Secretary shall ensure compliance of the directors and Compliance shall ensure compliance of the officers with the annual exercise by submission of annual declaration of related party transactions entered by them for the particular year, if any.
- (2) Vendors and Suppliers Certification. All Service Providers, Suppliers and Vendors shall be required to declare or certify whether or not they have a conflict of interest with the Company. Sourcing and relevant business unit shall ensure compliance with this requirement.

Mechanism for monitoring of compliance shall be established. Deliberate failure to declare material information in the foregoing requirement shall be a ground for termination of employment or severance of relevant contract or arrangement.

### **5.2. Senior Management Roles and Responsibilities**

- (1) Each business unit shall maintain an inventory of related party transactions owned by them and shall continuously review and evaluate existing relationships with their existing counterparties, including those that subsequently become related parties. Each business unit will be required to submit on a quarterly basis to Compliance whether or not they have related party transactions for the period.
- (2) The Compliance Office 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 and/or approval by the Regulatory and Compliance Committee, the Audit and RPT Committee, and/or the Board of Directors.<sup>8</sup> It shall also ensure that that RPT Policy is kept updated and is properly implemented throughout the Company.
- (3) Internal Audit shall conduct periodic review of the effectiveness of the Company's system and internal controls governing RPTs to assess consistency with Board-approved policies and procedures. It shall also conduct periodic review of transactions with related parties,

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<sup>8</sup> Insurance Commission Circular No. 2017-29 on Related Party Transactions, par. 2.3.3, page 9.

including write-offs, the results of which shall be communicated directly to the Audit and RPT Committee which shall have independent oversight in the implementation of this Policy.<sup>9</sup>

- (4) Finance shall ensure that the Company maintain adequate capital against risk 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.

Finance shall create and maintain the list of related parties based on the following, among others:

1. List of directors and shareholders, their close family relatives, from the Office of the Corporate Secretary
2. List of officers and their close family relatives from the Office of the Human Resources
3. List of contractors and other third parties from the Sourcing Department

The database shall be made available at Finance and shall be reviewed and updated on a quarterly basis.

Finance shall also report to the Audit and RPT Committee and to the Board of Directors on a regular basis, the status and aggregate exposures of each related party as well as the total amount of exposures to all related parties.

- (5) Risk Office shall identify, measure, monitor and control risks arising from RPTs.

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<sup>9</sup> Insurance Commission Circular No. 2017-29 on Related Party Transactions, par. 2.3.2, page 9.

## 6. Disclosure and Regulatory Reporting

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The Company shall adequately disclose in its Annual Report, if applicable, the overarching policies and procedures for managing RPTs, including managing of conflict of interest or potential conflicts of interest, responsibility of the Audit and 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, the following shall submit the following to the Insurance Commission:

- (1) The Conglomerate Structure Report (Annex A), which must be submitted to the Insurance Commission within thirty (30) calendar days after the end of every calendar year. The Office of the Corporate Secretary shall be responsible for the submission of the Report.
- (2) Report on Material Exposures to Related Parties (Annex B) which must be submitted to the Insurance Commission within twenty (20) calendar days after the end of the reference quarter. The Report shall include material RPTs of the supervised non-financial subsidiaries and affiliates. Finance Shall be responsible for the submission of the Report.

Prior written approval of the Insurance Commissioner (IC) shall be secured for transactions between the Company and its holding company for sales, purchases, exchanges, loans, or extensions of credit, or investments involving 5% or more of the Company's admitted asset as of the thirty first day of December of the preceding year.<sup>10</sup>

The following transactions between the Company and any person in its holding system may not be entered into unless the Company has notified the Commissioner in writing of its intention to enter into such transaction at least thirty (30) days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:

- (1) Sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one-half of one percent ( $\frac{1}{2}\%$ ) but less than five percent (5%) of the Company's admitted assets as of the thirty-first day of December of the preceding year;
- (2) Reinsurance treaties or agreements;
- (3) Rendering of services on a regular or systematic basis; or
- (4) Any material transaction, specified by regulation, which the Commissioner determines may adversely affect the interest of the Company's policyholders or stockholders or of the public.<sup>11</sup>

## 7. Others

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<sup>10</sup> Section 299, Insurance Code

<sup>11</sup> Section 300, Insurance Code

### **7.1. Whistle Blowing and Non-Retaliation**

The Company encourages employees to communicate, confidentially and without risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs. In that regard, whistleblowing shall be encouraged and dealt with in accordance with the existing Whistleblowing and Non-Retaliation Policies of the Company.

### **7.2. Restitution of Losses**

All profits gained by related parties out of the abusive RPT transactions and all losses suffered by the Company shall be refunded or restituted in full to the Company with legal rate of interest computed from the time profits accrued to the related party or from time the Company incurred the loss.

### **7.3. Remedies for Abusive RPTs**

RPTs which are found not to be at arm's length or not on a normal commercial terms shall be terminated immediately subject to restitution as provided in the preceding paragraph. All agreements with RPTs shall contain a standard provision that arrangements found to be abusive may be terminated immediately at no cost to the Company

All directors, officers, and employees shall abide by this Policy. Existing disciplinary measures may be imposed upon such directors, officers, or employees who failed to comply with their obligations under this Policy

### **7.4. Applicability**

This Policy shall apply to all subsidiaries and affiliates of Philam Life as may be relevant. Such subsidiaries and affiliates may also define their own coverage, identify transactions and set materiality thresholds and limits particular to the nature of their business and based on their risk appetite.

### **7.5. Policy Administration**

This Policy shall be administered by the Compliance Office with the Compliance and Regulatory Committee exercising oversight and guidance on how the provisions of this Policy shall be applied.

BPI Philam Life Assurance Corp.

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**Related Party Transactions Policy**

Version 2