

## COCOGEN INSURANCE, INC.

### RELATED PARTY TRANSACTIONS POLICY

The Board of Directors of COCOGEN Insurance, Inc. (the "Company") has adopted the following policies and procedures with regard to related party transactions, as defined below:

#### **1. Policy Statement**

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. In this regard, related party transactions are generally allowed, provided that these are done on an arm's length basis.

Related party transactions with a value or amount that poses significant risk to the Company, or those that result to a related party having direct or indirect material interest in such transaction or dealing, shall be considered material related party transactions and would need to be disclosed to the Insurance Commission ("IC") as provided for in IC Circular Letter No. 2017-29 (Re: Guidelines on Related Party Transactions for Insurance Commission's Covered Institutions).

Accordingly, the Company undertakes to exercise appropriate oversight and implement effective control systems for managing related party transactions to ensure that the interest of the Company, its shareholders, policyholders, clients, creditors, and other stakeholders are adequately protected.

#### **2. Definition of Terms**

**2.1. Related Party Transactions ("RPT")** – These are transactions or dealings with Related Parties of the Company, regardless of whether or not there is payment or compensation for the transactions, and shall also cover any material amendment or modification to existing RPT.

RPT shall be interpreted broadly to encompass not only transactions that are entered into with Related Parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a Related Party.

These shall include, but are not limited to, the following:

- a. On- and off-balance sheet credit exposures and claims and write-offs;
  - b. Investments and/or subscriptions for debt/equity issuances;
  - c. Consulting, professional, agency and other service arrangements or contracts;
  - d. Purchases and sales of assets, including transfer of technology and intangible items (*i.e.*, research and development, trademark and license agreements);
  - e. Construction arrangements or contracts;
  - f. Lease arrangement or contracts;
  - g. Trading and derivative transactions;
  - h. Borrowings, commitments, fund transfers and guarantees;
  - i. Sale, purchase or supply of any goods or materials; and
  - j. Establishment of joint venture entities.
- 2.2. **Material RPT** – This refers to RPT with a value amounting to at least PhP5 Million (the “materiality threshold”), regardless of the type of transaction or whether it is a one-time transaction or a series of transactions. Considering that material RPT may pose potential impact and significant risks to the operations of the Company, these transactions would require disclosure to regulators.
- 2.3. **Non-material RPT** – This refers to RPT with a value below the materiality threshold.
- 2.4. **Related Parties** – These shall include subsidiaries, affiliates and special purpose entities that the Company exerts direct or indirect control over or significant influence. Related Parties shall also cover the directors, officers, stockholders and related interests (“DOSRI”) of the Company, and their immediate or close family members, as well as the corresponding persons in subsidiaries and affiliated companies.
- 2.4.1. **Subsidiaries** – These refer to corporations that are owned by fifty percent (50%) or more by the Company.
- 2.4.2. **Affiliates** – These refer to corporations that are owned by at least twenty percent (20%) of the Company, and may have common directors, officers and stockholders.
- 2.4.3. **Officers** – These refer to the officers of the Company, its subsidiaries and affiliates, as enumerated in their respective By-Laws.

**2.4.4. Immediate or close family members** – These are persons related to the Company's director, officer and stockholder within the second degree of consanguinity or affinity, whether legitimate or common law. These shall include the spouse, parent, child, sibling, grandparent, grandchild, stepchild, stepparent, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, grandchild-in-law, and any person sharing the household of such director, officer, or stockholder.

**2.4.5. Corresponding persons in subsidiaries and affiliated companies** – A director, officer, and stockholder of the Company's subsidiaries and affiliates, and their immediate or close family members.

**2.5. Control of a company** – This exists when there is:

- a. More than one-half (1/2) of the total voting rights, by virtue of an agreement with other stockholders;
- b. Power to govern the financial and operating policies of the enterprise under a statute or agreement;
- c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
- d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- e. Any arrangement similar to any of the above.

**2.6. Price discovery mechanism** – The process of determining the price of an asset in the marketplace through the interactions of buyers and sellers in order to ensure that RPT are done on an arm's length basis.

**2.7. Arm's length transaction** – A transaction may be deemed to be at arm's length if no preferential treatment is given to a Related Party and the terms and conditions are not more favorable than similar transactions with non-related parties.

### **3. Duties and Responsibilities of the Board of Directors ("BOD")**

The BOD of the Company shall make sure that RPT are treated in a sound and prudent manner, in compliance with applicable laws and regulations, in order to

protect the interests of policyholders, claimants, creditors and other stakeholders of the Company. Towards this end, the BOD shall carry out the following duties and responsibilities:

- 3.1. To observe good governance and approve a comprehensive RPT policy that shall be adopted within the Company. The BOD shall ensure that there is compliance with existing laws, as well as Company rules and guidelines, and that these are conducted on arm's length basis.
- 3.2. To constitute an RPT Board Committee. The BOD shall designate the RPT Board Committee as a standing board level committee to specifically undertake the crafting and implementation of policies and procedures related to the protection and rectitude of the Company's entry into an RPT, subject to the final review and approval of the BOD.
  - 3.2.1. The RPT Board Committee shall be composed of at least three (3) members of the BOD, two (2) of whom shall be independent directors, including the chairperson.
  - 3.2.2. In case a member of the RPT Board Committee has conflict of interest in RPT, he shall inhibit himself from evaluating the particular transaction.
  - 3.2.3. The Compliance Officer, the Head of Internal Audit, and the Chairperson/selected members of the RPT Steering Committee may sit as resource persons.
- 3.3. To approve all RPTs of the Company upon the recommendation of the RPT Board Committee. Any material changes in the terms and conditions of an RPT will also be subject to the review and approval of the BOD. The confirmation and approval of an RPT must be duly reflected in the minutes of the board meeting.
- 3.4. To designate an RPT Steering Committee composed of the Heads of the following business units: (a) Financial Management Division, (b) Legal Services Department, (c) Compliance Department, and (d) Risk Management Department. The RPT Steering Committee is tasked to initially evaluate all RPT in preparation for the review of the RPT Board Committee.
- 3.5. To establish an effective system to determine, identify and monitor Related Parties and RPT that shall include the review and evaluation of existing relationships between and among business and counterparties, as well as the identification, measurement, monitoring and control of the risks arising from RPT.

The said system shall:

- a. Define the Related Parties' extent of relation with the Company;
  - b. Assess situations in which non-related parties subsequently become Related Parties, and vice versa;
  - c. Generate information on the type and amount of exposures to a Related Party;
  - d. Check and report breaches of the materiality threshold;
  - e. Facilitate submission of reports to regulators;
  - f. Be made available to the IC for review;
  - g. Be assessed periodically by Internal Audit and Compliance functions; and
  - h. Be updated regularly to assure sound implementation.
- 3.6. To maintain adequate capital against risks associated with exposures to RPT. In this regard, material risks arising from RPT shall be considered in the capital planning process.
- 3.7. To oversee the integrity, independence and effectiveness of policies and procedures for whistleblowing. The Company's Whistleblower Policy shall be adopted and made as an integral part of this policy.

#### **4. Responsibilities and Powers of the RPT Board Committee**

- 4.1. It shall evaluate, on a continuing basis, the relationship between and among businesses and counterparties to ensure identification, monitoring of RPT including changes (from non-related to related, and vice versa). Any changes in relationships shall be reflected in the relevant reports to the BOD and/or the regulators. Any material amendment, renewal or extension of a transaction, arrangement or relationship previously agreed upon shall be reassessed.
- 4.2. It shall determine the materiality threshold or the amount of significant transactions that could pose material risk to the Company. For this purpose, the amount generally considered within the materiality threshold is PhP5 Million and above, or its foreign currency equivalent. The materiality threshold amount may, however, be changed from time to time depending on

the judgment of the BOD on the level of transactions that could pose significant risk to the Company, or as may be directed by the IC. Justification for the threshold and exclusion shall be documented in the minutes of the meeting.

- 4.3. It shall also identify transactions excluded from the materiality threshold requirement. Regular trade transactions involving purchase and sale of debt securities traded in an active market are excluded from the materiality threshold requirement.
- 4.4. It shall ensure that RPT are within prudent levels, the internal limits for individual and aggregate exposures to a Related Party will be set by the RPT Board Committee, consistent with the Company's risk appetite, risk profile and capital strength. For this purpose, the amount generally considered as the internal limit for single or aggregate RPT is PhP5 Million, or its foreign currency equivalent.
- 4.5. It shall report breaches of the PhP5 Million materiality threshold to the BOD, with the decision of the BOD to accept the exposure or to take steps to address the breaches, as may be necessary. This shall be documented in the minutes of the meeting.
- 4.6. It shall recommend to the BOD the approval or disapproval of all potential and existing RPT, and require that Management take all reasonable efforts to terminate, unwind, cancel or annul the RPT.
- 4.7. It shall assess whether the RPT is on terms no less favorable than terms generally given to an unaffiliated third-party under the same or similar circumstances and the extent of the Related Party's interest in the RPT.
- 4.8. Where advance review of RPT by the RPT Board Committee is not possible or has not been obtained, the RPT shall be reviewed subsequently by the RPT Board Committee and the said RPT may be subsequently ratified or rescinded by the BOD.
- 4.9. The RPT Board Committee is empowered to seek restitution and other remedies that would cut losses and allow recovery of losses or opportunity costs incurred by the Company arising from abusive RPT or those that are not at arm's length terms.
- 4.10. The RPT Board Committee shall periodically review these policies and may recommend amendments from time to time as it deems appropriate. In addition to guidelines for ongoing RPT, the RPT Board Committee may also

establish guidelines regarding the review of other RPT such as those that involve amounts below the materiality threshold, those that do not require public disclosure, and those that have charitable or social responsibility purposes.

## 5. Procedures for Monitoring, Reporting and Disclosure of RPT

- 5.1. Each business unit shall maintain an inventory of potential and existing RPT which their unit is considered as owner. Each business is required to submit on a quarterly basis to the Corporate Treasurer the inventory of potential and existing RPT for the relevant period.
- 5.2. The Corporate Treasurer shall prepare and submit to the RPT Steering Committee an RPT Report containing the following relevant information:
  - a. A general description of the RPT and its material terms and conditions;
  - b. The name of the Related Party and the basis on which such person or entity is a Related Party;
  - c. The Related Party's interest in the transaction(s), including the Related Party's position or relationship with, or ownership of, any entity that is a party to or has an interest in the transaction(s);
  - d. The approximate peso value of the transaction and the approximate Peso value of the Related Party's interest in the transaction(s);
  - e. In the case of a lease or other transaction requiring periodic payments or installments, the aggregate amount of all periodic payments or installments expected to be made; and
  - f. In the case of indebtedness, the aggregate amount of principal to be outstanding and the rate or amount of interest to be payable on such indebtedness.
- 5.3. The RPT Steering Committee shall initially evaluate the RPT Report in preparation for the review of the RPT Board Committee.
- 5.4. The RPT Steering Committee shall submit the RPT Report, containing the results of its evaluation and the President's notation, to the RPT Board Committee, which shall then review and determine whether the RPT were entered into on an arm's length basis and thereafter recommend for its approval or disapproval.
- 5.5. The RPT Board Committee's review of an RPT shall be done on a semi-annual basis, i.e., January and July of the relevant period.

- 5.6. It is critical that RPT should be conducted on an arm's length basis, and not be undertaken on more favorable economic terms (*i.e.*, in terms of price, commissions, interest rates, fees, tenor, collateral requirement) to such Related Parties than for similar transactions with non-related parties, under similar circumstances.

The review and determination process conducted by the RPT Board/Steering Committee includes guidance for an effective price discovery mechanism to make sure that transactions are engaged into in terms that promote the best interest of the Company and its stakeholders.

The price discovery mechanism may include, but is not limited to:

- i. acquiring the services of an external expert;
- ii. opening the transaction to a bidding process; or
- iii. publication of the products and/or services required, the property for sale, etc., and other material information regarding the transaction(s).

- 5.7. The BOD shall confirm and approve, upon the recommendation of RPT Board Committee, the subject RPT, which must be properly documented in the minutes of the meeting. Material RPTs shall be approved by at least two-thirds (2/3) of the entire membership of the BOD, with at least a majority of the independent directors voting to approve such RPT. Non-material RPTs shall be approved by at least a majority of the quorum of the BOD.

- 5.8. The following rules shall further apply to DOSRI transactions:

- 5.8.1. A member of the BOD who is interested in a DOSRI transaction shall disclose all material information to the RPT Board Committee concerning such RPT and his or her interest in such transaction.
- 5.8.2. The presence of a member of the BOD who is interested in a DOSRI transaction shall not be counted for purposes of constituting a quorum in all meetings of the RPT Board Committee and the BOD in which such DOSRI transaction is deliberated upon for recommendation and/or approval.
- 5.8.3. A member of the BOD who is interested in a DOSRI transaction shall abstain from the deliberation and approval of such transaction.
- 5.8.4. The DOSRI transaction must be fair and reasonable under the circumstances.

- 5.8.5. In case a DOSRI transaction does not comply with the requirements under Sections 5.8.2 and 5.8.3, such transaction may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock in a meeting called for the purpose: *Provided,* That full disclosure of the adverse interest of the director involved is made at such meeting and the contract is fair and reasonable under the circumstances.
- 5.9. In instances where cases of RPT are reported by employees and other stakeholders to the Compliance Officer or other persons in authority, and subsequently elevated to the Committee or the BOD, the Company's Whistleblower Policy shall be implemented, if deemed necessary, in ensuring the protection and safety of the source.
- 5.10. Reports on the status and aggregate exposures to each Related Party, as well as the total amount of exposures of all RPT, shall be made to the BOD on a regular basis.
- 5.11. Required disclosures shall be forwarded to the IC regarding the Company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest, as provided for in IC Circular Letter No. 2017-29 (Re: Guidelines on Related Party Transactions for Insurance Commission's Covered Institutions).
  - 5.11.1. The Office of the Corporate Secretary shall be primarily responsible for submitting to the IC an annual report on the conglomerate structure where the Company belongs within the period required by IC Circular Letter No. 2017-29.
  - 5.11.2. Further, the Financial Management Division shall submit quarterly reports on material RPT and material exposures to Related Parties to the IC within the period required by the foregoing circular.
- 5.12. Directors, officers and staff personnel who have been grossly remiss in their duties in handling RPT will be penalized as may be provided in existing company guidelines. These policies are intended to augment, supplement, and work in conjunction with other Company policies and guidelines that have code of conduct and code of ethics provisions.

## 6. Documentation

- 6.1. Relevant documents of RPT shall all be kept for a period of five (5) years from transaction date, or as required under the Company's internal policy, by the relevant departments.
  - 6.1.1. Minutes of meetings and Board resolutions pertaining to RPT shall be kept by the Office of the Corporate Secretary.

6.1.2. Contracts and agreements pertaining to RPT shall be kept by the Financial Management Division and the Legal Services Department.