

RELATED PARTY TRANSACTION COMMITTEE

Date: November 15, 2018

Time: 2:00pm – 5:00pm

Attendees:

1. Chairperson Ellen Pastores
2. Independent Trustee Romeo Magdaong

Items discussed: Finalization of RPT Policy

SECTION 1. INTRODUCTION

The National Confederation of Cooperatives Mutual Benefits Association, Inc. (NATCCO MBAI) is a duly licensed provider of micro-insurance coverage for various risks involving life, accident, sickness and other contingencies. NATCCO MBAI was established in 2009 to further support the NATCCO Network in its needs to provide micro-insurance products to its members. Since then, it has been extending financial assistance to members and their dependents, in the form of death benefits, sickness benefits, provident savings, and loan redemption assistance.

NATCCO MBAI is an institution covered by Insurance Commission (IC). IC, with its Circular Letter 2017-29, dated May 2, 2017, has instructed all Covered Institutions (CIs), including MBAs, to create Related Party Transactions Committee and establish policies and procedures for transactions between related parties. These policies shall be made to ensure that such transactions are only undertaken on an arm's length basis for financial, commercial, and economic benefit of NATCCO MBAI, and the entire group where it belongs.

SECTION 2. COVERAGE

This Related Party Transactions (RPT) Policy shall:

- a. 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/special risk or potential abuse to the Company and its stakeholders; and
- b. Cover the identification and prevention or management of potential or actual conflicts of interest which may arise.

SECTION 3. DEFINITION OF TERMS

3.1 **Related Parties** shall cover NATCCO MBAI's subsidiaries as well as affiliates that the NATCCO MBAI exerts direct or indirect control over or that exert significant influence over NATCCO MBAI; the Trustees; Officers; 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 NATCCO MBAI, hence, is identified as a related party.

3.2 Close Family Members are persons related to NATCCO MBAI's trustees and officers 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 CI's Directors, Officers and Staff (DOS).

3.3 Corresponding Persons in Affiliated Companies are the DOS of the affiliated companies and their close family members.

3.4 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.

3.5 Control of an Enterprise exists when there is:

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

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

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

3.5.4 Any other arrangement similar to any of the above.

Should NATCCO MBAI choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control.

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

3.6.1 On-and-off-balance sheet credit exposures and claims and write-offs;

3.6.2 Investments and/or subscriptions for debt/equity issuances;

3.6.3 Consulting, professional, agency and other service arrangements/contracts;

3.6.4 Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);

3.6.5 Construction arrangements/contracts;

3.6.6 Lease arrangements/contracts;

3.6.7 Trading and derivative transactions;

3.6.8 Borrowings, commitments, fund transfers and guarantees;

3.6.9 Sale, purchase or supply of any goods or materials;

3.6.10 Establishment of joint venture entities

3.6.11 Settlement of liabilities on behalf of NATCCO MBAI; and

3.6.12 Compensation, benefits (monetary and non-monetary), post-employment benefits, termination benefits and share-based payment of current employees 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.

3.7 “**At arm’s length**” is a term referring to transactions in an open and unrestricted market and between willing parties who are knowledgeable, informed, and who act independently of and without regard to any relationship with each other.

SECTION 4. GUIDELINES IN ENSURING ARM’S-LENGTH TERMS

RPTs shall be conducted in the regular course of business and not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, and collateral requirement) to such Related Parties than similar transactions with non-related parties under similar circumstances.

There shall be an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of NMBAI 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, or publication of available property for sale.

SECTION 5. CONFLICT OF INTEREST

Conflict of interest is "a situation in which a relevant employee, member of the Board, or Officer has a private or personal interest sufficient to influence, or appear to influence, the objective exercise of his or her official duties" in connection with NMBAI’s business.

The members of the Board, Officers 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 Organization.

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

SECTION 6. MATERIALITY THRESHOLDS AND EXCLUDED TRANSACTIONS

Materiality threshold shall be based from the Financial Policies of NMBAI for each type of transaction, depending on the nature of business transaction or value impact that could result in business interruption, has business consequences or causes concern to Management such that it warrants escalation and notification to the RPT Committee.

Materiality shall not only be based on the amount but on nature of transaction and risks involved which would lead to any of the following:

- 6.1 Materially impair the quality of NMBAI’s governance;
- 6.2 Significantly increase the operational risks; and
- 6.3 Services provided involve significant customer impact, exchange or transfer of sensitive and confidential data.

Excluded transactions are those transactions that are frequent, operational in nature, and do not place NMBAI at risk or liability exposure.

SECTION 7. WHISTLE-BLOWING MECHANISM

Employees are encouraged to communicate, confidentially and without risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs. For concerns and complaints, employees may report on the contact details below.

Office Address: 3/F NATCCO Building, 227 JP Rizal Street, Project 4, Quezon City 1109

Telephone numbers: 0997-594, 6712; 02-962-3408

Email: natccombai2010@hotmail.com

SECTION 8. DUTIES AND RESPONSIBILITIES/ROLES AND FUNCTIONS OF THE NATCCO MBAI BOARD OF TRUSTEES

8.1 The Board of Trustees 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. The Board of Trustees shall carry out the following duties and responsibilities:

8.1.1 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.

8.1.2 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 Members in the annual members' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of trustees.

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 members to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during Members' meetings and duly reflected in the minutes of board and Members' meetings.

8.1.3 To delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of trustees. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.

8.1.4 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.

The system shall be able to define related parties' extent of relationship with the CI; assess situations in which a non-related party (with whom a given CI has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related

party. The said system will facilitate submission of accurate reports to the regulators. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the IC and audit functions for review. Any changes in the policies and procedures shall be approved by the board of trustees.

8.1.5 To maintain adequate capital against risks 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 CI is well-insulated from any going concern issue of related parties.

8.1.6 To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. 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.

8.1.7 To constitute an RPT Committee

RPT Committee is composed of Board Chairperson and two (2) Independent Trustees.

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.

SECTION 9. RESPONSIBILITIES OF RELATED PARTY TRANSACTIONS (RPT) COMMITTEE

The RPT Committee shall:

9.1 Evaluate on an on-going 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.

9.2 Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (i.e., 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 NATCCO MBAI 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 NATCCO MBAI 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 NATCCO MBAI 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. NATCCO MBAI 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 NATCCO MBAI's internal policies shall be endorsed by the RPT Committee to the Board of Trustees for approval.

9.3 Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to NATCCO MBI'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 NATCCO MBI's affiliation or transactions with other related parties.

9.4 Report to the Board of Trustees 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.

9.5 Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.

9.6 Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

SECTION 10. ROLES OF MANAGEMENT AND SELF-ASSESSMENT FUNCTIONS

10.1 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 on-going basis to ensure compliance with the NATCCO MBI's policy and IC's regulations.

10.2. The internal audit function shall conduct a periodic review of the effectiveness of the NATCCO MBI'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.

10.3 The compliance function shall ensure that NATCCO MBI complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall aid in the review of NATCCO MBI'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 properly implemented throughout the association.

SECTION 11. DISCLOSURE AND REGULATORY REPORTING

NATCCO MBI shall adequately disclose in the 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.