

The background is a solid red color. On the left side, there are several overlapping, semi-transparent white shapes that resemble stylized waves or abstract organic forms. These shapes are layered, with some appearing in front of others, creating a sense of depth. The overall aesthetic is clean and modern.

PHILAM EQUITABLE LIFE ASSURANCE  
COMPANY, INC,

2016 ANNUAL REPORT

## COMPANY OVERVIEW

**Philam Equitable Life Assurance Company, Inc. (PELAC)** was a bancassurance venture with Equitable Bank (which was later merged into Banco De Oro). Banco De Oro has a partnership with Generali which resulted to a compromise where insurance selling in BDO will be divided between Generali and Philam Life. Thus, prompting the negotiation later with BPI. Philam Life later purchased the 5% share of BDO (pursuant to the agreement) hence, this is now 100% owned by Philam Life. Management is still keeping the company for a future Sales and Marketing purpose which is still under study.

## VISION AND MISSION

As a member of AIA Group and 100% owned by Philam Life, we follow the same vision and mission, **to be the undisputed leader in life insurance and wealth management. We aim to bring a Philam policy in every Filipino household.**

## FINANCIAL HIGHLIGHTS

### 2016 Calendar Year Results

Presented below are the Financial Highlights for Calendar Year 2016 versus 2015 (Philippine GAAP basis).

Phil. GAAP basis Amounts in Php '000s	CYTD Dec 2016 Actual	CYTD Dec 2015 Actual	Growth Over PY
Net Insurance Premiums	3,079	2,764	-11.4%
Net Investment Income	28,737	34,641	-17.0%
Gain on Sale of Available for Sale Financial Assets	971	3,441	-71.8%
Net Insurance Benefits and Claims	13,976	3,772	270.5%
Operating Expenses	22,159	32,060	-30.9%
Net Income	18,425	24,284	-24.1%

After the termination of the Bancassurance Agreement with BDO in 2009, PELAC was no longer issuing new policies. As a result, gross premium decreased by 22% in 2016 versus 2015. Income recognized in 2016 originated mostly from renewal premium and fees from VUL policies.

Net investment income during the period in the amount of P28.74 Million declined by 17% mainly from lower investment income from bonds due to disposals made in 2016, lower interest on policy loans. Gain on sale of available for sale financial assets of P0.97 Million came from disposal of bonds.

Operating Expenses stood at P22.16 Million, which consisted mainly of the shared service charges from Philam Life. The increase in Net Insurance Benefits and Claims was from maturities of two externally managed VUL funds in 2016. The lower balance of net insurance benefits and claims in 2015 was due to the release of reserves largely coming from 10-year variant of Preferred Dollar, bulk of which matured in 2014.

## 1 2015 Audited Financial Statements

### A. Balance Sheets

	2016	2015
<b><u>ASSETS</u></b>		
Cash and cash equivalents	199,173	43,636
Insurance receivables	483,594	388,559
Financial assets at fair value through profit or loss	56,969	264,494
Available-for-sale financial assets	339,132	378,359
Loans and receivables	88,130	96,106
Accrued income	10,278	10,458
Other assets	536	530
<b>Total assets</b>	<b>1,177,812</b>	<b>1,182,142</b>
<b><u>LIABILITIES AND EQUITY</u></b>		
Insurance contract liabilities, net	121,476	323,316
Premium deposit fund	5,190	6,647
Policyholders' dividends	636	548
Reserve for policyholders' dividends	131	128
Insurance payables	31,536	18,802
Accounts payable and accrued expenses	271,635	95,512
<b>Total liabilities</b>	<b>430,604</b>	<b>444,953</b>
Share capital	250,000	250,000
Contributed surplus	25,000	25,000
Contingency surplus	169,100	169,100
Reserve for fluctuation on available-for-sale financial assets	58,820	67,226
Retained earnings	244,288	225,863
<b>Total equity</b>	<b>747,208</b>	<b>737,189</b>
<b>Total liabilities and equity</b>	<b>1,177,812</b>	<b>1,182,142</b>

## B. Statements of Income

	2016	2015
<b>REVENUES AND OTHER INCOME</b>		
Gross premium on insurance contracts	10,968	13,963
Reinsurers' share of gross premiums on insurance contracts	(7,889)	(11,199)
Net insurance premiums	3,079	2,764
Investment income	29,108	35,228
Foreign exchange gains	22,686	16,952
Commission income	500	2,110
Fee income	177	5,285
Gains on sale of available-for-sale financial assets	971	3,441
Fair value losses on financial assets at fair value through profit or loss, net	(1,955)	(6,804)
Other income	3,827	5,956
<b>Total revenues and other income</b>	<b>58,393</b>	<b>64,932</b>
<b>EXPENSES</b>		
Benefits and claims paid on insurance contracts, net	224,629	20,653
General and administrative expenses	21,438	31,067
Investment expense	371	587
Insurance taxes, licenses and fees	293	388
Commissions and other acquisition expenses	36	16
Interest expense	22	2
Change in insurance contract liabilities, net	(210,653)	(16,881)
<b>Total expenses</b>	<b>36,136</b>	<b>35,832</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>22,257</b>	<b>29,100</b>
INCOME TAX EXPENSE	3,832	4,816
<b>NET INCOME FOR THE YEAR</b>	<b>18,425</b>	<b>24,284</b>

### C. Statements of Changes in Equity

	Share capital	Contributed surplus	Contingency surplus	Reserve for fluctuation on available-for-sale financial assets	Retained earnings	Total
<b>AS AT JANUARY 1, 2015</b>	250,000	25,000	169,100	83,805	201,579	729,484
<b>COMPREHENSIVE INCOME</b>						
Net income for the year	-	-	-	-	24,284	24,284
Other comprehensive income	-	-	-	(16,579)	-	(16,579)
Total comprehensive income	-	-	-	(16,579)	24,284	7,705
<b>AS AT DECEMBER 31, 2015</b>	250,000	25,000	169,100	67,226	225,863	737,189
<b>COMPREHENSIVE INCOME</b>						
Net income for the year	-	-	-	-	18,425	18,425
Other comprehensive loss	-	-	-	(8,406)	-	(8,406)
Total comprehensive income	-	-	-	(8,406)	18,425	10,019
<b>AS AT DECEMBER 31, 2016</b>	250,000	25,000	169,100	58,820	244,288	747,208

## CAPITAL STRUCTURE

Authorized Capital Stock	-	P600,000,000.00
Subscribed & Paid-up	-	P250,000,000.00
Par Value	-	P10.00 per share

## LIST OF STOCKHOLDERS

<i>Name of Stockholder</i>	<i>Shares Held</i>	<i>Class</i>	<i>Amount Paid</i>	<i>% of Ownership</i>	<i>Nationality</i>	<i>Beneficiary Ownership</i>	<i>Date of Appointment</i>
The Philippine American Life and General Insurance Company (Philam Life)	24,999,993	Common	249,999,930.00	100%	Hong Kong SAR		
Ariel G. Cantos (Executive Director/Chairman)	1	Common	10.00		Filipino	Philam Life	24 June 2016
Andreas Rosenthal (Executive Director/CEO)	1	Common	10.00		German	Philam Life	28 September 2015
Ernesto R. Lagdameo, Jr. (Independent Director)	1	Common	10.00		Filipino	Philam Life	18 November 2003
Victoria S. Licuanan (Independent Director)	1	Common	10.00		Filipino	Philam Life	30 January 2007
Eric S. Lustre (Executive Director/CIO)	1	Common	10.00		Filipino	Philam Life	19 April 2011
Ma. Adoracion R. Go (Executive Director/Controller)	1	Common	10.00		Filipino	Philam Life	19 April 2011
Richard Sumner (Non-Executive Director)	1	Common	10.00		British	Philam Life	30 July 2014
<b>TOTAL</b>	<b>25,000,000</b>		<b>250,000,000.00</b>	<b>100%</b>			

## 2016 MEMBERS OF THE BOARD OF DIRECTORS

### ***Board Chairman:***

Ariel G. Cantos

### ***Executive Director:***

Andreas Rosenthal  
Eric S. Lustre  
Adoracion R. Go

### ***Non-Executive Director:***

Richard Sumner

### ***Independent Directors:***

Ernesto R. Lagdameo, Jr.  
Victoria S. Licuanan

## **BOARD OF DIRECTORS**

### **ARIEL G. CANTOS (56 years old)**

*Executive Director/Chairman of the Board*

Mr. Aibee Cantos is the Chief Executive Officer of Philam Life. Prior to his appointment, Mr. Cantos held the role of CEO of BPI-Philam, the bancassurance joint venture of Philam Life and the Bank of the Philippine Islands (BPI), and the leading bancassurance operation in the Philippines. He is also a member of the Board of Directors of various Philam companies and sits as a Trustee of Philam Foundation.

His most recent position at Philam Life was Senior Vice President and Chief Agency Officer, before spearheading the growth of BPI-Philam in 2013. He joined Philam Life right after completing his Bachelor's Degree in Economics, Honors Program, from the Ateneo de Manila University and had an enriching and successful career in Philam Life's Agency Distribution Channel which he served for close to 30 years. He held various positions within the channel such as Profit Center Head of Accident & Health Products, Director of Manila Agencies, and Director of Provincial Agencies.

He is also currently the president of the Philippine Life Insurance Association Inc. (PLIA), and a corporate member of Management Association of the Philippines (MAP) and Makati Business Club (MBC).

### **ANDREAS ROSENTHAL (46 yrs old)**

*Executive Director/Chief Executive Officer*

Dr. Andreas Rosenthal, German, joined Philam Life in February 2012 as Chief Financial Officer. During those times, he was responsible for the supervision of Philam Life's Finance Operations which consist of Actuarial, Investment, Financial Reporting and Controllership, Risk Management, Treasury and Procurement. He was a primary contributor to the Company's success on the duration of his leadership.

Coming from a one year stint from AIA Korea, he re-joins Philam Life this August 2015 and will assume a bigger role as CFO and Head of Transformation.

He brings with him 18 years of experience in insurance industry across multiple functions such as finance, actuarial, product development and risk management. He held CFO positions in various countries in Asia and was the Regional CFO for Allianz SE covering the entire Asia-Pacific region (responsible for 15 markets) for both the life insurance and property & casualty businesses.

He holds a PhD in Mathematics from the University of Bielefeld in Germany and a Master's Degree (Diplom-Mathematiker) from theFU University of Berlin.

### **ERNESTO R. LAGDAMEO, JR. (80)**

*Independent Director*

ERNESTO R. LAGDAMEO, JR., has been an Independent Director of the Company since 2003 and was re-elected last 08 April 2015. Now a retired business executive, he continues to serve as a corporate director for several other Philippine companies and is still active in non- government organizations and professional groups as a lecturer/speaker on youth formation, parenting, family management, work attitude development, lifestyle and retirement planning.

His present corporate positions include: Director and Treasurer, Service Partners, Inc.; Director and Vice President, Industrial Underwriters & Commercial Corp. He has been Chairman of A Brown Co., Inc., Philnor Consultants and Planners, Inc., W. Brown & Co., Inc.; Xavier Sports and Country Club, Sinagtala Publishers, Inc. Epic-Asia Int'l Consultants, Inc.; Vice Chairman of Commonwealth Insurance Co., Sanitary Wares Manufacturing Corporation (Philippine Standard); President of Rebar Building, Inc.; Vice

President of Warner Barnes & Co., Inc.; Northern Cement Corporation; and Director of Philippine Bank of Commerce, FNCB Finance, and General Paint Corp. (Phil.), Inc.

He is Chairman Emeritus of Educhild Foundation, Inc., a non-profit organization dedicated to the continuing education of parents for the proper upbringing of children, organized in Manila in 1976. He also served as Chairman of the Board of Trustees of St. Scholastica's College (Manila), Chairman and President of Educhild Foundation, Inc.; Trustee of PAREF Southridge Private School for Boys and as Member of the National Executive Board & Treasurer of the Boy Scouts of the Philippines.

Mr. Lagdameo is an accounting graduate of De La Salle University, a holder of an MBA from the same institution, and a Certified Public Accountant. A retired naval reservist, he holds the rank of Captain in the Philippine Navy.

### **VICTORIA S. LICUANAN (73)**

*Independent Director*

Professor Victoria S. Licuanan is currently a research fellow and adjunct faculty of the Asian Institute of Management (AIM). Prior to her retirement, she was Dean of AIM in 2005-2010, and continues to teach economics, negotiations, strategy and Asian business in addition to research.

Prof. Licuanan's major research projects are in overseas migration issues, entrepreneurship and behavioral economics. Her current research is a randomized controlled trial (RCT) to measure the impact of new modules for the Pre-Departure Orientation Seminar (PDOS) that is currently mandated for all Filipinos leaving for overseas whether as temporary or permanent migrants. The research is funded by an international donor, and undertaken with a MOA with the Philippine Overseas Workers Welfare Administration. Her recent publications together with researchers in the USA and Europe are "Entrepreneurship and Innovation Initiatives among Asian Multinationals: A Cross-Country Analysis", published in the International Journal of Commerce and Management, and "The Drivers of Diaspora Donations for Development: Evidence from the Philippines", published in the journal World Development. Aside from teaching, Prof. Licuanan is also an entrepreneur in the food business as well as in real estate. She is active in NGO work in early child education.

Prof. Licuanan obtained her undergraduate degree in business management (Magna Cum Laude) from Maryknoll College in the Philippines. She went to Harvard University under a Fulbright-Hays scholarship, where she completed her course work and comprehensive examinations for a Ph.D. in economics, specializing in monetary and international economics.

### **ERIC S. LUSTRE (54)**

*Executive Director/Chief Investment Officer*

Eric S. Lustre is currently the President and CEO of the Philam Asset Management, Inc. He is also the Country Credit Officer and Chief Executive Officer of Philam Properties Corporation, Philamlife Tower Management Corporation, Philamlife Tower Condominium Corporation and the President of Tower Club, Inc. Mr. Lustre also holds the position of Head of Corporate Finance and Real Estate Investment of The Philippine American Life and General Insurance Company.

Mr. Lustre is a member of the Board of Directors of Phinma Corporation, Philam-Equitable Life Assurance Company, ICCP Holdings, Inc., Science Park of the Philippines, Inc., Regatta Properties, Inc., Beacon Property Ventures, Inc., Pueblo de Oro Development Corporation, Cebu Light Industrial Park, Inc., and RFM-Science Park of the Philippines, Inc. He is also a member of the Fund Management Association of the Philippines.

Previous to working with the Philam Group of Companies, Mr. Lustre worked as Assistant Manager for Citibank N.A. Manila Branch's Local Corporate Banking Department. He was also an Analyst of Far East



Bank & Trust Company's Credit & Corporate Banking Group.

He has a Bachelor of Science in Business Management from the Ateneo de Manila University and holds a Master's degree in Business Management major in Finance from the Asian Institute of Management.

**RICHARD SUMNER (42)**

*Non-Executive Director*

Mr. Richard Sumner, British, born in 1974. He leads the AIA Group Tax function and manages the Group's overall tax affairs. In addition to Group level responsibilities, his role involves advising AIA's Business Units in 17 markets across the Asia-Pacific region on a range of tax issues. Prior to joining AIA in July 2013, he was an Executive Director for Financial Tax Services, Hong Kong from October 2010 – July 2013 and Ernst & Young, London and Hong Kong from May 2009 – July 2013. He lead Ernst & Young insurance tax practice in the Asia-Pacific region and was a member of their global insurance tax executive. In this regard he was the tax account leader for many of the largest pan-regional insurance groups in the Asia-Pacific market. He also led Ernst & Young's EMEI Financial Services Tax Desk in Hong Kong. His role in this area involved working with many of the predominant global banking, insurance and asset management groups in the regions. In May 2009 to October 2010, he was a Director for Financial Services Tax, London. He joined Ernst & Young as a Director in the firm's financial services International tax team with focus on the insurance sector. In this role, he advised a number of UK and non-UK based insurance groups (including groups in the life, non-life, brokerage and reinsurance sectors), as well as several major UK headquartered banks. From February 2008 until February 2009, he was seconded from PwC on a year-long secondment to HM Treasury, where he worked as a Senior Policy Advisor on insurance taxation and the taxation of foreign profits. Prior to his secondment to HM Treasury, he was the main day-to-day point of contact and the account manager for PwC's tax relationship with a number of the largest financial services groups in the world.

Mr. Sumner joined Coopers & Lybrand in September 1997 as a member of the insurance tax team, which sits within the wider financial services group.

From Summer 2002 until Spring 2005 Richard was seconded to PwC's Sydney office, where he initially worked within the financial services tax team dealing with clients from all areas of the financial services industry.

In January 2004 he transferred to the PwC Australian firm's specialist international tax team where he worked on a variety of cross border tax structuring projects, financial product arrangements and acquisitions/disposals.

**MA. ADORACION R. GO (47)**

*Executive Director/Controller*

Ms. Go is the Controller of The Philippine American Life and General Insurance Co (Philam Life). She also serves as the Controller of Perf Realty Corporation, Kapatiran Realty Corporation, Philam Call Center Services, Inc., Philamlife Tower Management Corporation and Philamlife Tower Condominium Corporation. She also holds directorships in various Philam companies such as: Philamlife Tower Management Corporation, Philamlife Tower Condominium Corporation, Kapatiran Realty Corporation, Perf Realty Corporation and 18/F, Holdings, Inc. Prior to joining Philam Life in 1997, she was an Audit Supervisor for Life/Non-Life Insurance Audits in SGV & Co.

Ms. Go was a graduate of the University of Saint La Salle, Bacolod City, with a Bachelor of Science in Commerce degree major in Accounting and passed the CPA Licensure Examinations in April 1991.

## BOARD SUPPORT

### ACE DEVINO A. CUSTODIO

*Corporate Secretary*

Atty. Ace Devino A. Custodio is currently the Assistant Corporate Secretary of The Philippine American Life & General Insurance Co. and BPI-Philam Life Assurance Corporation. He also serves as the Corporate Secretary of Philam Equitable Life Assurance Company, Inc., Philam Properties Corporation, Philam Asset Management, Inc., Philam Tower Realty Corporation, Philamlife Tower Condominium Corporation, Philamlife Tower Management Corporation, Philam Foundation, Inc. Philam Call Center Services, Inc., Kapatiran Realty Corporation, PERF Realty Corporation, and Tower Club, Inc.

Atty. Custodio is a graduate of University of Santo Tomas with a Bachelor of Arts Degree Major in Economics (cum laude). He likewise took his Bachelor of Laws Degree from the same University.

## BOARD COMMITTEES

AUDIT COMMITTEE	INVESTMENT COMMITTEE	NOMINATION COMMITTEE
<p><b>Ernesto R. Lagdameo, Jr. – Chairman</b> <i>(Independent Director)</i></p> <p><b>Victoria S. Licuanan</b> <i>(Independent Director)</i></p> <p><b>Ma. Adoracion R. Go</b> <i>(Executive Director)</i></p>	<p><b>Eric S. Lustre – Chairman</b> <i>(Executive Director)</i></p> <p><b>Andreas Rosenthal</b> <i>(Executive Director)</i></p> <p><b>Ma. Adoracion R. Go</b> <i>(Executive Director)</i></p> <p><b>J. Vincent R. Daffon</b> <i>(Senior Officer)</i></p> <p><b>Tisha T. Darvin</b> <i>(Senior Officer)</i></p>	<p><b>Ariel G. Cantos – Chairman</b> <i>(Executive Director)</i></p> <p><b>Ma. Adoracion R. Go</b> <i>(Executive Director)</i></p> <p><b>Ernesto R. Lagdameo, Jr.</b> <i>(Independent Director)</i></p>
<p><b>REMUNERATION COMMITTEE</b></p> <p><b>Ariel G. Cantos - Chairman</b> <i>(Executive Director)</i></p> <p><b>Ma. Adoracion R. Go</b> <i>(Executive Director)</i></p> <p><b>Ernesto R. Lagdameo, Jr.</b> <i>(Independent Director)</i></p>	<p><b>MANAGEMENT &amp; GOVERNANCE COMMITTEE</b></p> <p><b>Ariel G. Cantos – Chairman</b> <i>(Executive Director)</i></p> <p><b>Andreas Rosenthal</b> <i>(Executive Director)</i></p> <p><b>Ernesto R. Lagdameo, Jr.</b> <i>(Independent Director)</i></p>	

## BOARD & COMMITTEE MEETINGS

To exercise its discretionary powers and management oversight of the Company, the Board of Directors sees to it that it meets on a regular basis as required by the law and Company By-Laws. In all meetings, as provided by the Company By-Laws, the presence of four (4) out of seven (7) directors is necessary to constitute a quorum, and the affirmative votes of the majority of the directors present are required to decide a matter, except when the law or the By-Laws required a higher number.

Before the start of the financial year, the Corporate Secretary advises the members of the Board of the schedules of their meetings, which may change subject to their availability and other reasonable circumstances. Board meetings are regularly set on a quarterly basis, while special meetings are called by the Chief Executive Officer, or as provided in the Company-By-Laws.

Five (5) days prior to the scheduled meetings, the Corporate Secretary sends to the members of the Board their respective meeting packs, which would contain among others the Board and Committee meeting minutes, the management report and financial highlights, and other items the need action and approval of the Board.

For 2016, the Board of Directors had a total of five (5) meetings, where the Board posted an overall attendance rate of 85.71%.

MEMBER	BOARD	AUDIT COMMITTEE	NOMINATION & GOVERNANCE COMMITTEE	REMUNERATION COMMITTEE
	25 April 2016 23 June 2016 12 August 2016 12 October 2016 25 November 2016	25 April 2016 25 November 2016	18 April 2016 22 June 2016	No meeting held for the year
	NO. OF MEETINGS HELD & ATTENDED FOR THE YEAR 2016			
	5 MEETINGS (85.71%)	2 MEETINGS (100%)	2 MEETINGS (66.67%)	NONE
J. XEL BROMLEY*	0	-	0	-
ARIEL G. CANTOS**	2	-	0	-
ANDREAS ROSENTHAL	4	-	-	-
ERNESTO R. LAGDAMEO, JR.	5	2	2	-
VICTORIA S. LICUANAN	5	2	-	-
ERIC S. LUSTRE	5	-	-	-
RICHARD SUMNER	4	-	-	-
MA. ADORACION R. GO	5	2	2	-

Note: "-" indicates that the directors are not a member of this committee  
\*resigned effective 24 June 2016

## CORPORATE GOVERNANCE

PELAC confirms its full compliance with the Code of Corporate Governance, and its commitment to the highest standards of corporate governance is rooted in the belief that culture of integrity and transparency is essential to the consistent achievement of its common goals. Creating a sustainable culture, where trust and accountability are vital as skill and wisdom, steers us towards achieving long-term value for shareholders and clients, and strengthens our confidence in the institution.

## **ROLE AND RESPONSIBILITIES OF THE BOARD**

The Board of Directors exercises all the powers of the corporation, and all business conducted and all properties of the corporation are controlled and held by them. The Board is completely independent from management and major stockholders. The Board is accountable to the shareholders and as such it shall ensure the highest standard of governance in running the Company's business and setting the strategic directions. The detailed role and responsibilities are set forth in the By Laws and the Manual of Corporate Governance. The Board of Directors exercises all the powers of the corporation, and all business conducted and all properties of the corporation are controlled and held by them. The Board is completely independent from management and major stockholders. The Board is accountable to the shareholders and as such it shall ensure the highest standard of governance in running the Company's business and setting the strategic directions. The detailed role and responsibilities are set forth in the By Laws and the Manual of Corporate Governance.

For 2016, The Board of Directors, through its Board Risk and Audit Committees, has conducted a regular review of the Company's material controls (including operational, financial and compliance controls) and risk management systems. The Board Risk Committee, the Audit Committee and the Board of Directors have declared their satisfaction and confidence on the Company's internal controls and risk management systems.

## **BOARD INDEPENDENCE**

Each of the independent directors meets the guidelines set in the Manual of Corporate Governance. None of the independent directors has any business or significant financial interest in the Company or any of its subsidiaries. They, therefore, continue to be considered independent.

## **BOARD PROCESS**

The Board meetings are on a quarterly basis unless a special meeting is necessary to consider urgent matters. Minutes of meetings of the Board and all Committees are kept by the Corporate Secretary. Likewise have separate meetings with Internal and External Auditors, without the management.

Said minutes are open for inspection by the Board and Stockholders upon request. Board materials are sent to the members at least five (5) business days in advance of the scheduled board meetings.

In addition to the regular meetings, the directors also engage in informal meetings in a quarterly basis to further discuss issues and strategies. Non-executive directors also find time to meet separately to discuss the business affairs of the Corporation.

## **ELECTION OF DIRECTORS**

The Company uses a transparent procedure for the election of directors. The Nomination and Governance Committee looks into the qualifications of directors and thereafter the Board deliberates on the recommendation of the Committee. At the stockholders meeting, the shareholders are duly informed by the Corporate Secretary of the qualified nominees and of the voting method and vote counting system. Each stockholder with voting privilege shall be entitled to cumulate his vote in the manner provided by law. After the election process, the Corporate Secretary shall count the votes and thereafter declare the duly elected members of the Board.

## **ORIENTATION PROGRAM AND TRAINING**

The Corporate Secretary provides the orientation for new directors to explain the organizational profile, charters, by laws, policies and procedures in the company. A corporate governance seminar is also arranged for each director to ensure adherence to best practices on corporate governance.

The Board members are encouraged to attend further training and inform the Corporation on such trainings attended.

## **PERFORMANCE EVALUATION**

The Company has established its own performance evaluation, the criteria of which are based on the Insurance Commission's Circular on Corporate Governance. Every April of each year, the Board, as well as the Committees, conducts annual self-assessment of its performance, the results of which are submitted to the Nomination and Governance Committee and to the Board of Directors.

In the Annual Board Performance Evaluation Survey, the Board members are required to rate the performance of the Chairman, the CEO, the Board, and the Board Committees based on the standards and criteria provided therein. Among the criteria set include but not limited to the following: the appropriateness of the Board's composition; the director's skills, expertise, and their participation and contribution in the Board and Committee discussions; the working relationship among the Board, the Chairman, and the senior management; the overall performance of the Chairman, the CEO, the Board and the various Board Committees. In the Survey, the Board members are required to give the subject either an 'excellent'; consistently good'; 'adequate'; or 'needs major improvement' rating. The directors are also required to provide other ideas and suggestions on how they could further improve the performance of the Board. After accomplishing the survey, the directors will submit the same to the Corporate Secretary, who will then consolidate and evaluate the answers and submit the results to the Nomination and Governance Committee for its approval. The results will then be reported to the Board for its notation.

For 2016, the Annual Board Performance Evaluation Survey was participated by the members of the Board, where the Board registered an overall rating of "excellent". The result clearly exemplifies the effectiveness and competence of the Company's Board of Directors. It also shows that it clearly understands the Company's objectives, as well as the major roles it plays to the Company, its shareholders and stakeholders.

## **RELATED PARTY TRANSACTIONS**

PELAC abides by its policy that ensures all transactions between related parties 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. It is the responsibility of the Board of Directors and Management to exercise appropriate oversight and implement effective control systems for managing RPT exposures. The Board shall have the overall responsibility in ensuring that related party transactions are handled in sound and prudent manner, with integrity, and in compliance with applicable laws, rules, regulations, and circulars to ultimately protect the interest of the employees, policyholders, creditors and all other stakeholders.

Related party relationship exists and details of Related Party Transactions are provided in Note 16 of the 2016 Audited Financial Statement. The Company has no RPTs that can be classified as financial assistance to entities other than wholly-owned subsidiary companies. The Company ensures that RPTs are conducted in such a way that they are fair and at arms' length, and discloses such facts in its Annual Performance Report and the Audited Financial Statements.

## **RISK MANAGEMENT**

The Risk Management of PELAC is within the Enterprise Risk Management of the Philam Group. The following tools were implemented: Risk Control Self-Assessment (RCSA) and Risk Event Capture and Analysis Process (RECAP). On a quarterly basis, the monitoring of the results of RCSA is reported to the Risk Management Committee which includes discussion on the RECAP.

## **OPERATING PHILOSOPHY**

### ***The AIA Code of Conduct***

Honesty and integrity are the cornerstones of the AIA business. AIA serves millions of customers across the most dynamic growth region in the world – and is known and admired for its unwavering commitment to these values.

This reputation and the trust it inspires is critical to the success of the organization. Dedication and commitment to high standards have helped build the organization in the past and continue to do so. It can only maintain such reputation to the future when each employee strives harder to do what is right and by being prepared to take their personal responsibilities in observing the highest standards of integrity and conduct at all times and in every dealing.

This is what the AIA Code of Conduct is about. It sets out AIA's and its member companies' commitment to the Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right people... and the results will come." This establishes the unique culture of AIA across all 17 markets within the Asia Pacific region that includes BPI-Philam.

The AIA Code of Conduct sets out the ethical guidelines for conducting business which is the same code that BPI-Philam observes. This serves as a guide in managing the company's compliance, ethics, and risk issues.

The standards set forth in the Code also apply to business partners including agents, contractors, subcontractors, suppliers, distribution partners, and those who act on behalf of AIA and BPI-Philam. Thus, the corporation, its directors, senior management and employees are mandated to comply with the policies. The Compliance Department is tasked to implement these policies and monitor compliance therewith.

Like AIA, BPI-Philam has always believed in the power of diverse, talented people to create value and deliver on customer and shareholder expectations. Thus, it competes vigorously to create new opportunities for its customers and for itself. However, competitive advantages are sought only through legal and ethical business practices. With the products, services and responsible business practices, BPI-Philam strives to improve the quality of life of every Filipino. Promoting compliance with local laws and local regulatory requirements that apply to the business is at the foundation of BPI-Philam's good corporate citizenship.

### ***Code of Conduct - Annual Certification Program***

To ensure that all BPI-Philam employees are aware of the provisions of the Code, an annual certification program is conducted whereby all employees confirm their knowledge and understanding about the rules and guidelines written in the Code.

## ***Anti-Money Laundering and Counter Terrorist Financing***

Pursuant to Section 18 of Republic Act (RA) No. 9160, also known as the “Anti-Money Laundering Act of 2001”, as amended by RA No. 9194, RA No. 10167, RA No. 10168 and RA No. 10365 all covered institutions which include insurance companies supervised or regulated by the Insurance Commission are mandated to formulate their respective money laundering prevention program in accordance with the said law.

As a matter of policy, **PELAC** shall foil any attempt by anyone to use the Company or its affiliates for money laundering purposes. This Anti-Money Laundering Program, together with the Company’s Guidelines, establishes the governing principles and business standards to protect **PELAC** and its business operations from becoming an unwitting tool of money launderers. The company’s management, officers and staff must remain vigilant in the fight against money laundering and financing of terrorism and shall collectively oppose any effort to violate or flaunt the “Anti-Money Laundering Act of 2001”, as well as its implementing rules and regulations.

In order to promote an effective AML compliance program, the following actions were taken:

1. Institutionalized the AML Committee to ensure effective implementation of the company’s AML program. The Chairman of the AML Committee is the Head of Operations with the Head of Legal and Head of Compliance as members.
2. Adopted a Risk-Based-Approach, and strictly implements Enhanced Due Diligence for defined High Risk Customers.
3. Continuous eLearning for employees and face-to-face AML training for agents.
4. Adopted the Actimize system with 3 modules. Watch List Filtering or screening against PEPs and sanctioned persons; Customer Due Diligence that provides risk scoring for all clients; and Suspicious Activity Monitoring that provide red flag/alerts for transactions, particularly, cash transactions.

## ***Data Privacy***

Customers expect **PELAC** to carefully handle and safeguard the business and personal information that they share in the conduct of the business. **PELAC** must never compromise a customer’s trust by disclosing private information other than to those with a legitimate business need to know.

Employees who handle customer information are responsible for knowing and complying with applicable information privacy and information security laws. In all cases, appropriate physical, administrative and technical safeguards for personal information and business data must be maintained.

**PELAC** should be in compliance with RA10173, Data Privacy Act of 2012, on September 2017. Philam’s Executive Committee approved the appointment of the Data Privacy Readiness Steering Committee who is primary responsible for the overall data governance and security of Philam Group. A company-wide roll-out/training will be implemented to mitigate data privacy risks.

## ***Market Conduct Guidelines***

**PELAC** envisions itself as having one of the highest sales standards in the life insurance industry in Philippines. All sales personnel are expected to conduct their business with the highest level of professionalism and personal integrity. **PELAC** will not tolerate anything less.

The Market Conduct Guidelines is used as a guide by all sales personnel in the conduct of their business and aid in the determination of what would be deemed proper conduct and behaviour. It shall apply equally and consistently to the conduct of Life business practices and all financial products. Any breach of the Market Conduct Guidelines may result in the imposition of a penalty upon the offender in question. Compliance with these guidelines does not ensure a continued contractual relationship with **PELAC**. **PELAC** reserves the right at all times to terminate the employment contract of any sales personnel in

accordance with the terms of the contract entered into between **PELAC** and that of the sales personnel.

A Market Conduct Committee was also created with the main purpose of administering the rules of the Market Conduct Guidelines, Company policies or other guidelines, and to provide assistance to the Board of Directors and Company's management to enable Philam Life to continue to operate according to the highest ethical business standards and in accordance with the applicable laws and regulations.

### ***Anti-Fraud Policy***

**PELAC** adopts a zero-tolerance approach to fraud and expects all employees, agents, and third parties to act with honesty and integrity. The policy is intended to reinforce management procedures designed to aid in the prevention, detection, and investigation of fraud, thereby safeguarding the Company's assets and providing protection from the legal and reputational consequences of fraudulent activity. All suspected cases of fraud are investigated and disciplinary procedures enforced, including prosecution and termination.

Aside from the Philam's existing Anti-Fraud Policy and Guidelines, the Company is now required by the Insurance Commission through IC Circular Letter No. 2016 -50 to submit by September 2017 an Anti-Fraud Plan to ensure that all Companies are prepared and ready to combat insurance fraud for its own protection and for the welfare of its stakeholders or insuring public.

### ***Anti-Corruption & Bribery & Gifts and Entertainment***

The Policy is applied alongside the AIA Code of Conduct. It provides guidance on giving and accepting gifts and entertainment. The Anti-Corruption Guidelines specifies the roles, responsibilities and procedural controls for transactions involving government officials. All relevant laws countering bribery and corruption must be upheld. If local laws and regulations require higher compliance standards vis-a-vis the guidelines of the AIA Code of Conduct, then **PELAC** must meet the higher standards.

The Anti-Corruption & Bribery Policy basically prohibits all employees, agent, or independent contractor in providing bribes or other benefits to another person in order to obtain or retain business or unfair advantage in any business interaction involving **AIA and PELAC**, its customers and employees.

The company is not allowed to use improper means to influence another person's business judgement. All employees and officers are required to report to the Compliance Officer any gift/entertainment provided to Government/Government officials.

### ***Prevention of Insider Trading & Price Sensitive Information***

The AIA Group takes its obligations as a listed entity seriously and is committed to ensuring the highest standards of market conduct and fair dealing. The Hong Kong Securities and Futures Ordinance (SFO) prohibits market misconduct, including insider trading. Breaches of market misconduct laws are serious offences that attract heavy civil and criminal penalties.

Since **PELAC** is a member of the AIA Group, it adopts the same policy and follows the same guidelines. The Prevention of Insider Trading and Market Misconduct Policy aims to build a robust system to prevent market misconduct including insider trading. It sets out standards and controls to ensure compliance with the regulatory requirements. Lastly, the existence of this policy should prevent employees and directors from engaging in speculative trading in AIA Group Securities.

The policy applies to all employees and directors of AIA Group Limited and each of its subsidiaries ("AIA Group"), including **PELAC**.

This policy defines the duty of each employee to safeguard material information from improper use.



Under the policy, it is illegal to trade securities while in possession of a material non-public information and pass a material non-public information to anyone who may trade securities based on it or give others recommendations to buy or sell securities.

In connection with this, dealings in AIA securities by certain employees, officers, directors, and their related interests, require pre-approval from the Group Company Secretary. Other securities about which AIA may have received or may expect to receive material, non-public information, or are otherwise subject to restrictions in trading, are placed on watch lists or restricted lists and trading activities in securities included in these lists are restricted and/ or actively monitored.

### ***Investment Code of Ethics***

AIA believes that individual investment activities by its officers and employees should not be prohibited or discouraged. Nonetheless, the nature of AIA's fiduciary obligations necessarily requires some restrictions on the investment activities of certain employees, officers, directors, and their related interests, who may be deemed Investment Access Persons.

In managing assets for AIA entities, Investment Access Persons have a fiduciary responsibility to treat stakeholders fairly. This duty requires a course of conduct, consistent with other statutory obligations, that seeks to be prudent and in AIA's and its stakeholders' best interest.

The AIA Investment Code of Ethics is intended to address three fundamental principles that must guide the personal investment activities of Investment Access Persons in light of their fiduciary duties:

- (1) Place the interests of AIA and its Stakeholders first.*** As fiduciaries, Investment Access Persons must avoid serving personal interests ahead of the interests of AIA or those of its stakeholders.
- (2) Avoid taking inappropriate advantage of one's position as an Investment Access Person.***
- (3) Conduct personal investing activities in such a way as to avoid even the appearance of a conflict of interest with investment activities undertaken for the AIA Portfolios.***

As a member of the AIA Group, **PELAC** adopts the same policy and follows the same guidelines. Generally, all Investment Access Persons are required to obtain pre-clearance prior to purchasing or selling a security. In addition, Investment Access Persons must provide and certify on a regular basis their accounts and beneficial holdings as well as all transactions in securities in which they had beneficial ownership and/or control. Certain outside business activities of Investment Access Persons also need prior approvals.

### ***Sourcing Policy***

The company adheres to a Sourcing Policy, which includes sourcing and expense policies, as well as the new procurement system, Ariba. A regular supplier summit was also held as a form of sourcing engagement to remind accredited suppliers on proper rules of engagement with Philam Life including the governance in the selection process, AIA Code of Ethics, and AIA Code for suppliers.

### ***Supplier Selection***

PELAC complies with the AIA Code of Conduct, which provides that the Company select suppliers and vendors on the basis of performance and merit in accordance with a fair and transparent process. Appropriate due diligence is performed regarding potential agents, consultants and independent contractors prior to engaging their services.

Like AIA, PELAC seeks supplier partnerships with diverse businesses and values suppliers that share the Company's dedication and commitment to diversity and social responsibility.

## **Fair Dealing Policy and Creditor's Rights**

PELAC adheres to its Fair Dealing Policy, which ensures that businesses with the customers, service providers, supplier and competitors are conducted in a fair manner. Following AIA's model, PELAC seeks competitive advantages only through legal and ethical business practices. Every employee must conduct business in a fair manner with customers, service providers, suppliers and competitors. Disparaging competitors or their products and services is discouraged. Improperly taking advantage of anyone through manipulation, concealment, abuse of privileged information, intentional misrepresentation of facts or any other unfair practice is not and will not be tolerated at PELAC much more in the AIA Group. It is also the policy of PELAC to uphold creditor's rights by honouring its contractual obligations with all its creditors and counterparties, in accordance with the provisions of their contracts and the law. In the conduct of its business dealings with third parties, PELAC undertakes to honour all its commitments, stipulations and conditions set forth in their binding agreements.

## **THE WHISTLEBLOW PROGRAM**

**PELAC** does business with integrity and follow the highest ethical principles. Any employee (or anyone else) may raise concerns of misconduct or wrongdoing within **AIA and PELAC** that can allow investigation to fix any problems. This Policy guides all employees on how to raise ethical concerns and managers on how they should respond when this happens.

The Whistleblow Policy applies to all employees of the AIA Group including **PELAC**. 'Whistleblower' refers to someone (an AIA employee, business partner, agent, consultant, vendor, customer or other party) who informs **AIA or PELAC** of suspected illegal or improper ways of doing business involving violation of laws, regulations, AIA or BPI Philam policies, and other unethical actions that might negatively impact AIA's and **PELAC** reputation.

Employees who are aware of possible wrongdoing within **AIA and PELAC** have a responsibility to disclose that information to management. Reports are taken seriously and investigated confidentially. Employees or other individuals will not suffer retaliation for reporting suspected wrongdoing in good faith.

An AIA Ethics line was developed to support the program. It is an independently managed website and hotline (telephone) service, receiving reports in local language, 24 hours a day, and 7 days a week. AIA and **PELAC** can communicate with anonymous whistleblowers using this website via a secure platform.

The following misconduct including unethical or unlawful acts can be reported through this AIA Ethics line.

- Fraud, misappropriation, theft, bribery or corruption, giving or receiving inappropriate gifts or kickbacks;
- Harassment, bullying or assault, discrimination, conflicts of interest, or abuse of authority;
- Fake or falsification of signatures, customer accounts, information or business performance reports;
- Creating inappropriate funds or cash floats (slush funds) with travel agents, fake vendor bids etc.
- Signs of retaliation against a whistleblower or suspected whistleblower including subtle acts such as exclusion from meetings or events which may impact long term career or advancement.
- Anyone trying to interfere with the confidentiality of a whistleblower report, identifying or giving away the identity of a whistleblower, or encouraging or tolerating such actions.

Reporting of concerns or suspicions may be done by multiple means as provided in the Code. The report may also be made by using the **AIA Group Ethics and Compliance Hotline (PLDT) 1010-5511-00-00-245-4179 or 105-11-800-245-4179**.

## **DIVIDEND POLICY**

It is the policy of PELAC to adopt and comply with the provision of the Insurance Code (RA 10607) that states that no domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements under the Code and except from profits attested in a sworn statement to the Commissioner by the President or Treasurer of the Company to be remaining on hand after retaining unimpaired the entire paid-up capital stock, the solvency requirements, the legal reserve fund required by the Code, the sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes. Any dividend declared or distributed by the Company shall be reported to the Commissioner within thirty (30) days after such declaration or distribution.

As provided in the Company's By-Laws, Article VIII, Section 2, absent restriction in contracts with persons or compelling financial or business reasons which affect the Corporation and/or all of its stockholders, or, unless otherwise agreed upon by the stockholders, the Corporation shall, subject to the provisions of applicable law, declare and distribute dividends upon the stock Corporation.

**The Company did not declare any cash or stock dividends for 2016.**

## **CORPORATE SOCIAL RESPONSIBILITY**

**PELAC** is a member of Philam Foundation, the corporate social responsibility arm of the Philam Group. It is our aim to promote Healthy Education through its flagship project, Philam Paaralan. With the said project, the company helps the Department of Education in classroom building in underserved and/or calamity stricken areas in the country.

Philam Foundation has a KaAkbay Philam Volunteer Corps program which continues to support and encourage Philam Group employees to join various advocacies through its various activities like, Brigada Eskwela, Tree planting etc.