

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 and movement.

**PHILAM EQUITABLE LIFE  
ASSURANCE COMPANY, INC,  
2017 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

### 1 Cash Production Report

The table below shows the company's cash production for CYTD March 2018.

March 2018					
Amounts in Php '000s	CYTD Mar 2018 Actual	CYTD Mar 2017 Actual	Growth over PY	CYTD Mar 2018 Budget	Actual vs Budget
First Year Premium	-	-	-	-	n/a
Renewal Premium	1,208	3,289	-63.27%	6,637	81.80%
Single Premium	-	-	n/a	-	n/a
<b>Total Premium</b>	<b>1,208</b>	<b>3,289</b>	<b>-63.27%</b>	<b>6,637</b>	<b>81.80%</b>

The table below shows the net asset value of PELAC's VUL funds as of March 31, 2018.

Fund Amounts in '000s	Original Currency (USD)	Translated Amount (PHP)
High Water Mark	1,022	53,429
<b>Total</b>	<b>1,022</b>	<b>53,429</b>

### 2 2017 Calendar Year Results

Presented below are the Financial Highlights for Calendar Year 2017 versus 2016 (Philippine GAAP basis).

Phil. GAAP basis Amounts in Php '000s	CYTD Dec 2017 Actual	CYTD Dec 2016 Actual (restated)	Growth Over PY
Net Insurance Premiums	3,299	3,079	7.2%
Investment Income	28,148	29,108	-3.3%
Foreign exchange gains	2,456	22,686	-89.2%
Gain on Sale of Available for Sale Financial Assets	1,804	971	85.7%

Net Insurance Benefits and Claims	11,692	14,760	-20.8%
Operating Expenses	21,977	22,159	-0.8%
Net Income (loss)	(899)	17,641	-105.1%

After the termination of the Bancassurance Agreement with BDO in 2009, PELAC is no longer issuing new policies. As a result, gross premium continues to decline with 23% decrease in 2017 versus 2016. Income recognized in 2017 is mostly from investment income.

Investment income during the period in the amount of P28.15 Million declined by 3.3% mainly from lower investment income from bonds due to disposals made in 2017 and lower interest on policy loans. Lower foreign exchange gains is from the depreciation of Peso and decrease in Dollar investments. Gain on sale of available for sale financial assets of P1.8 Million came from disposal of bonds.

Operating Expenses stood at P22 Million, which consisted mainly of the shared service charges from Philam Life. Higher Net Insurance Benefits and Claims in 2016 was from maturities of two externally managed VUL funds.

### 3 2017 Audited Financial Statements

#### A. Balance Sheets

	December 31, 2017	December 31, 2016 <i>(As restated)</i>	January 1, 2016 <i>(As restated)</i>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	213,689	199,173	43,636
Insurance receivables	649,106	483,594	388,559
Financial assets at fair value through profit or loss	54,896	56,969	264,494
Available-for-sale financial assets	305,884	339,132	378,359
Loans and receivables	86,951	88,130	96,106
Accrued income	10,468	10,278	10,458
Other assets	345	536	530
<b>Total assets</b>	<b>1,321,339</b>	<b>1,177,812</b>	<b>1,182,142</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
Insurance contract liabilities, net	116,870	119,058	320,727
Premium deposit fund	5,298	5,190	6,647
Policyholders' dividends	2,745	636	548
Insurance payables	36,722	31,536	18,802
Accounts payable and accrued expenses	420,459	271,635	95,512
<b>Total liabilities</b>	<b>582,094</b>	<b>428,055</b>	<b>442,236</b>
Share capital	250,000	250,000	250,000
Contributed surplus	25,000	25,000	25,000
Contingency surplus	169,100	169,100	169,100
Reserve for fluctuation on available-for-sale financial assets	48,749	58,820	67,226
Reserve for remeasurement on life insurance reserves	(2,304)	(2,762)	(3,378)
Retained earnings	248,700	249,599	231,958
<b>Total equity</b>	<b>739,245</b>	<b>749,757</b>	<b>739,906</b>
<b>Total liabilities and equity</b>	<b>1,321,339</b>	<b>1,177,812</b>	<b>1,182,142</b>

## B. Statements of Income

	2017	2016 (As restated)
<b>REVENUES AND OTHER INCOME</b>		
Gross premium on insurance contracts	8,401	10,968
Reinsurers' share of gross premiums on insurance contracts	(5,102)	(7,889)
Net insurance premiums	3,299	3,079
Investment income	28,148	29,108
Foreign exchange gains	2,456	22,686
Commission income	918	500
Fee income	164	177
Gains on sale of available-for-sale financial assets	1,804	971
Fair value losses on financial assets at fair value through profit or loss, net	(758)	(1,955)
Other income	48	3,827
<b>Total revenues and other income</b>	<b>36,079</b>	<b>58,393</b>
<b>EXPENSES</b>		
General and administrative expenses	21,055	21,438
Benefits and claims paid on insurance contracts, net	17,698	224,300
Investment expense	427	371
Interest expense	416	22
Insurance taxes, licenses and fees	48	293
Commissions and other acquisition expenses	32	36
Change in insurance contract liabilities, net	(6,006)	(209,540)
<b>Total expenses</b>	<b>33,670</b>	<b>36,920</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>2,409</b>	<b>21,473</b>
<b>INCOME TAX EXPENSE</b>	<b>3,308</b>	<b>3,832</b>
<b>NET LOSS FOR THE YEAR</b>	<b>(899)</b>	<b>17,641</b>

## C. Statements of Changes in Equity

	Share capital	Contributed surplus	Contingency surplus	Reserves for		Retained earnings	Total
				Fluctuation on available-for-sale financial assets	Remeasurement on insurance contracts liabilities		
<b>BALANCES AS AT JANUARY 1, 2016</b>							
As previously reported	250,000	25,000	169,100	67,226	-	225,863	737,189
Effect of changes in reserving methodology	-	-	-	-	(3,378)	6,095	2,717
<b>As restated</b>	<b>250,000</b>	<b>25,000</b>	<b>169,100</b>	<b>67,226</b>	<b>(3,378)</b>	<b>231,958</b>	<b>739,906</b>
<b>COMPREHENSIVE LOSS</b>							
Net income for the year							
As previously reported	-	-	-	-	-	18,425	18,425
Effect of changes in reserving methodology	-	-	-	-	616	(784)	(168)
<b>As restated</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>616</b>	<b>17,641</b>	<b>18,257</b>
Other comprehensive income	-	-	-	(8,406)	-	-	(8,406)
Total comprehensive income	-	-	-	(8,406)	616	17,641	9,851
<b>BALANCE AS AT DECEMBER 31, 2016, AS RESTATED</b>	<b>250,000</b>	<b>25,000</b>	<b>169,100</b>	<b>58,820</b>	<b>(2,762)</b>	<b>249,599</b>	<b>749,757</b>
<b>COMPREHENSIVE LOSS</b>							
Net income for the year	-	-	-	-	-	(899)	(899)
Other comprehensive loss	-	-	-	(10,071)	458	-	(9,613)
Total comprehensive loss	-	-	-	(10,071)	458	(899)	(10,512)
<b>AS AT DECEMBER 31, 2017</b>	<b>250,000</b>	<b>25,000</b>	<b>169,100</b>	<b>48,749</b>	<b>(2,304)</b>	<b>248,700</b>	<b>739,245</b>

## 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

Name of Stockholder	Shares Held	Class	Amount Paid	% of Ownership	Nationality	Beneficiary Ownership	Date of Appointment
The Philippine American Life and General Insurance (Philam Life) Company	24,999,993	Common	249,999,930.00	100%	Hong Kong SAR		
Ariel G. Cantos <i>(Executive Director/Chairman)</i>	1	Common	10.00		Filipino	Philam Life	24 June 2016
Arleen May S. Guevara <i>(Executive Director/CEO)</i>	1	Common	10.00		German	Philam Life	01 Aug. 2017
Ernesto R. Lagdameo, Jr. <i>(Independent Director)</i>	1	Common	10.00		Filipino	Philam Life	18 Nov. 2003
Victoria S. Licuanan <i>(Independent Director)</i>	1	Common	10.00		Filipino	Philam Life	30 Jan. 2007
Eric S. Lustre <i>(Executive Director/CIO)</i>	1	Common	10.00		Filipino	Philam Life	19 Apr. 2011
Denise Ann R. Saclag <i>(Executive Director/Controller)</i>	1	Common	10.00		Filipino	Philam Life	28 March 2018
Richard Sumner <i>(Non-Executive Director)</i>	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>			

## 2017 MEMBERS OF THE BOARD OF DIRECTORS

### **Chairman of the Board:**

Ariel G. Cantos

### **Non – Executive Director:**

Richard Sumner

### **Executive Director:**

Arleen May S. Guevara  
Eric S. Lustre  
Denise Ann R. Saclag

### **Independent Directors:**

Ernesto R. Lagdameo, Jr.  
Victoria S. Licuanan

## **BOARD OF DIRECTORS**

### **ARIEL G. CANTOS (57)**

*Non-Executive Director/Chairman of the Board*

Aibee Cantos is the CEO of Philam Life. Prior to his appointment, he held the role of CEO of BPI-Philam, the bancassurance joint venture of Philam Life and the Bank of the Philippine Islands, 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 Chairman of the Board 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, where 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.

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

### **ARLEEN MAY S. GUEVARA (56)**

*Executive Director/Chief Executive Officer*

Ms. Guevara is the Senior Vice President and Chief Investment Officer of Philam Life. She also holds officerships/directorships in other Philam companies, namely BPI-Philam, PAMI, PELAC, PERF Realty Corp., Kapatiran Realty Corp., and Philam Foundation. She is likewise a director in several member companies of the Investment Capital Corp. of the Philippines (ICCP) Group. Prior to joining Philam Life, she was Deputy Director of the Treasury Department of the Bangko Sentral ng Pilipinas, where she spent 14 years in central banking with particular focus on reserves management.

Ms. Guevara earned her BS degree in Applied Mathematics, *Magna cum laude*, from the University of the Philippines at Los Banos as a National Science Development Board (NSDB) scholar. She also completed all the academic units for masteral studies in economics from the De La Salle University. She likewise obtained a Master of Policy Science degree from Saitama University in Japan, under a Monbusho (Japan Ministry of Education) scholarship.

In 2003, Ms. Guevara was conferred the designation of Fellow, Life Management Institute (FLMI), with distinction, from the Life Office Management Association (LOMA), after having completed its professional development program for the insurance and financial services industry. She is an active member of the Financial Executives Institute of the Philippines (FINEX), the Fund Managers Association of the Philippines (FMAP) and the Management Association of the Philippines.

**ERNESTO R. LAGDAMEO, JR. (81)***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 (74)***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.

### **RICHARD SUMNER (43)**

*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 18 markets across the Asia-Pacific region on a range of tax issues. Prior to joining AIA in July 2013, he was an Executive Director of Financial Services Tax in EY Hong Kong from October 2010 to July 2013. He led EY's 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 EY's EMEIA 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 region.

Richard joined EY London as a Director in the firm's financial services International tax team in May 2009, 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, Richard was seconded from PwC 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, Richard had worked for PwC's insurance tax team since 1997, in both London and Sydney, and was the main day-to-day point of contact and tax account manager for a number of the largest financial services groups in the world.

### **DENISE ANN R. SACLAG (35)**

*Executive Director*

Denise Saclag is the Financial Controller for Philam Life. She is responsible for delivering financial reports to Group and local management and to the Philippine regulators, ensuring adequate and effective controls over financial reporting, and managing capital requirements and budget process.

Prior to joining Philam Life, Denise was a Senior Director at Sycip Gorres Velayo & Co (a member firm of Ernst & Young). She has extensive experience in tax accounting and compliance, internal control reviews, due diligence reviews and general tax advisory services for local and foreign clients.

Denise is a member of Philippine Institute of Certified Public Accountants (PICPA). She graduated cum laude from University of Santo Tomas with a Bachelor of Science in Accountancy degree. She placed 6<sup>th</sup> in the October 2002 Philippine CPA Board Examinations.

**ERIC S. LUSTRE (55)***Executive Director*

Eric S. Lustre is the Head of Corporate Finance and Real Estate Investment of The Philippine American Life and General Insurance Company. He is also the Country Credit Officer and Chief Executive Officer of Philam Properties Corporation and the President of Tower Club Corporation.

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 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.

**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**

<b>AUDIT &amp; RPT COMMITTEE</b>	<b>INVESTMENT COMMITTEE</b>	<b>NOMINATION COMMITTEE</b>
<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>Denise Ann R. Saclag</b> <i>(Executive Director)</i></p>	<p><b>Eric S. Lustre – Chairman</b> <i>(Executive Director)</i></p> <p><b>Arleen May S. Guevara</b> <i>(Executive Director)</i></p> <p><b>Denise Ann R. Saclag</b> <i>(Executive Director)</i></p> <p><b>J. Vincent R. Daffon</b> <i>(Senior Officer)</i></p>	<p><b>Ariel G. Cantos – Chairman</b> <i>(Executive Director)</i></p> <p><b>Denise Ann R. Saclag</b> <i>(Executive Director)</i></p> <p><b>Ernesto R. Lagdameo, Jr.</b> <i>(Independent Director)</i></p>

<b>REMUNERATION COMMITTEE</b>	<b>MANAGEMENT &amp; GOVERNANCE COMMITTEE</b>
<b>Ariel G. Cantos - Chairman</b> <i>(Executive Director)</i>	<b>Ariel G. Cantos – Chairman</b> <i>(Executive Director)</i>
<b>Denise Ann R. Saclag</b> <i>(Executive Director)</i>	<b>Arleen May S. Guevara</b> <i>(Executive Director)</i>
<b>Ernesto R. Lagdameo, Jr.</b> <i>(Independent Director)</i>	<b>Ernesto R. Lagdameo, Jr.</b> <i>(Independent Director)</i>

## 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 2017, the Board of Directors had a total of six (6) meetings, where the Board posted an overall attendance rate of 82.86%.

<b>MEMBER</b>	<b>BOARD</b> 28 March 2017 06 Apr. 2017 (Outgoing) 06 Apr. 2017 (Organizational) 01 Aug. 2017 26 Sept. 2017	<b>AUDIT COMMITTEE</b> 06 Apr. 2017 27 Nov. 2017	<b>NOMINATION &amp; GOVERNANCE COMMITTEE</b> 24 March 2017 31 July 2017	<b>REMUNERATION COMMITTEE</b>  No meeting held for the year
	<b>NO. OF MEETINGS HELD &amp; ATTENDED FOR THE YEAR 2017</b>			
	<b>6 MEETINGS (82.86%)</b>	<b>2 MEETINGS (83.33%)</b>	<b>2 MEETINGS (100%)</b>	<b>NONE</b>
ARIEL G. CANTOS	6		2	
ANDREAS ROSENTHAL*	3			
ARLEEN MAY S. GUEVARA**	2			
ERNESTO R. LAGDAMEO, JR.	5	2	2	
VICTORIA S. LICUANAN	2	1		
ERIC S. LUSTRE	6			
RICHARD SUMNER	5			
MA. ADORACION R. GO***	1		1	
DENNISE ANN R. SACLAG****	5	2	1	

\*resigned effective 14 July 2017; \*\*elected effective 01 August 2017; \*\*\*resigned effective 28 March 2018; \*\*\*\*elected 28 March 2018

## **CORPORATE GOVERNANCE**

We confirm our full compliance with the Code of Corporate Governance. Our commitment to the highest standards of corporate governance is rooted in the belief that a culture of integrity and transparency is essential to the consistent achievement of our goals. Creating a sustainable culture, where trust and accountability are as 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 strategic directions. The detailed role and responsibilities are set forth in the By Laws and the Manual of Corporate Governance.

For 2017, The Board of Directors, through its Board Risk and Audit Committees, 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.

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

In addition to the regular meetings, the directors also engage in informal meetings on 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. Independent Directors likewise regularly met with management, the internal auditors, and the external auditors, separately, to ensure proper check and balance is achieved by the Corporation.

## **ELECTION OF DIRECTORS**

We use 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 likewise encouraged to attend trainings and seminars to further develop and improve their skills, knowledge and experience necessary in the effective performance of their functions as members of the Board.

## **PERFORMANCE EVALUATION**

We have established our 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 are included, but are 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 2017, the Annual Board Performance Evaluation Survey was participated in by the members of the Board, where the Board registered an overall rating of "excellent". This clearly exemplifies the effectiveness and competence of the Board of Directors. It also shows that the Board clearly understands the objectives of the Company, as well as the major roles it plays in the Company, to 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 21.16 of the 2017 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**

Effective risk management maximizes the value of the business to shareholders and reassures policyholders on the strength and stability of the business. For regulators, sound risk management is vital to stability of the financial system, and for investors, it is means of protecting and enhancing the long-term value of their investment.

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**

### ***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 for the present. It can only maintain that reputation into 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 dealings.

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 Philam Equitable.

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

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

Like AIA, Philam Equitable 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, Philam Equitable strives to improve the quality of life of every Filipinos. Promoting compliance with local laws and local regulatory requirements that apply to the business is at the foundation of Philam Equitable's good corporate citizenship.

### ***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.

Any attempt by anyone to use the Company or its affiliates for money laundering purposes will be obstructed. The Anti-Money Laundering (AML) Program, together with the Company's Guidelines, establishes the governing principles and business standards to protect the 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 will collectively oppose any effort to violate or flaunt the "Anti-Money Laundering Act of 2001", as well as its implementing rules and regulations.

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 AML Committee is chaired by 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. Required regular eLearning for employees and AML lectures for agents.
4. Adopted the Actimize system with three modules: Watch List Filtering or screening against politically exposed persons (PEPs) and sanctioned persons; Customer Due Diligence that provides risk scoring for all clients; and Suspicious Activity Monitoring that provide red flag/alerts for dubious 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***

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 is applied 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 in by Philam Life and that of the sales personnel.

A Market Conduct Committee was also created with the main purpose of overseeing the implementation of 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 ensure that the company operates 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*

Following AIA's model, **Philam Equitable** 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 **Philam Equitable** much more in the AIA Group.

### *Social and Environmental Responsibilities*

Social and Environmental Responsibilities, which encourages the Corporation and its employees to make a positive contribution to the society and the environment, to contribute positively to the social and economic development of the communities in which it operates, and to promote health, financial literacy, education and other community needs. The Corporation and its employees volunteer time and funds to programs that promote health, financial literacy, education and other community needs. AIA and **Philam Equitable** are committed to reduce the impact of its operations on the environment and raise awareness about sustainability by taking part in activities that highlight these issues.

### *Creditor's Rights*

It is the policy of **Philam Equitable** to uphold creditor's rights by honoring 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, **Philam Equitable** undertakes to honor 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.

## **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 2017.**

## **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.