

## RELATED-PARTY TRANSACTION POLICIES AND PROCEDURES

### A. Overview

In accordance with the regulations, policies and guidelines on Corporate Governance issued by Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC) and other regulatory bodies, Philippine Business Bank (PBB) recognizes the need to strengthen its policy on related-party transactions and other similar situations so as to prevent or mitigate abusive transactions with related parties and avoid risks of conflict of interest.

This is also in consonance with PBB's adherence to the highest principles of good governance as the bank subscribes to the philosophy of integrity, accountability and transparency in doing business.

Similarly, Philippine Accounting Standard (PAS) 24 *Related Party Disclosures* provides that an entity should disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

### B. Definition of Terms (Per BSP Circular No. 749 dated February 27, 2012)

1. ***Related-Party Transaction.*** Any transaction between and among the Bank and its related companies including its stockholders, directors, officers and employees and their related interests.

Related party transactions are not limited to lending and may include, among others, investments, purchases or sales of goods, purchases or sales of property and assets, rendering or receiving of services, agency arrangements, leasing arrangements, transfer of technology, fund transfers, and guarantees. These also cover the credit exposures of the financial institution with its DOSRI (directors, officers, shareholders and related interest).

Related party transactions, similar to DOSRI transactions, are not prohibited provided that these are approved by the appropriate authority and conducted at arm's length basis.<sup>1</sup>

2. ***Related Company.*** Another company which is: (a) its parent or holding company; (b) its subsidiary or affiliate; or (c) a corporation where a bank or its majority stockholder owns such number of shares that will allow/enable it/him to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

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<sup>1</sup> Per BSP Memorandum No. M-2012-032 dated July 05, 2012.

3. **Related interests.** As defined under Sections 12 and 13 of R.A. No. 8791, related interests shall mean individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common law, and two (2) or more corporations owned or controlled by a single individual or by the same family group or the same group of persons.
4. **Subsidiary.** A corporation more than fifty percent (50%) of the voting stock of which is owned or controlled directly or indirectly through one (1) or more intermediaries.
5. **Affiliate.** A juridical person that directly or indirectly, through one (1) or more intermediaries, is controlled by, or is under common control with the bank or its affiliates.
6. **Substantial or Major shareholder.** A person, whether natural or juridical, owning such number of shares that will allow him to elect at least one (1) member of the board of directors of a bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10) of any class of its equity security.
7. **Significant transactions.** Dealings that could pose material risk to the bank. Determination of what is "significant:" may vary from one bank to another depending on the transactions' size and potential impact on the operations of the bank<sup>2</sup>.
8. **Control** exists when the parent owns directly or indirectly through subsidiaries more than one-half of the voting power of an enterprise unless, in exceptional circumstance it can be demonstrated that such ownership does not constitute control. Control may also exist even when ownership is one-half or less of the voting power of an enterprise when there is:
  - i. power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
  - ii. power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
  - iii. power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
  - iv. power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
  - v. any other arrangement similar to any of the above.

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<sup>2</sup> Per BSP Memorandum No. M-2012-032 dated July 05, 2012

### C. Policy/Guidelines

1. Related party transactions shall be allowed provided that these comply with applicable regulatory limits/requirements and dealings are conducted at arm's length basis. Said transactions shall only be made and entered into, substantially on terms and conditions not less favorable than those with other customers of comparable risks.
2. Related party transactions shall require the approval from the Board of Directors.
3. All approved related party transactions shall be reported by the Central Operations Group (COG) to the Audit Committee regularly during the latter's monthly meeting and to the Bangko Sentral ng Pilipinas (BSP) quarterly.
4. If an actual or potential conflict of interest arises on the part of a director, officer or employee, he is mandated to fully and immediately disclose the same and should not participate in the decision-making process relating to the transaction.

Any member of the Board who has an interest in the transaction under discussion shall not participate therein and shall abstain from voting on the approval of the transaction.

5. Reportorial/Disclosure Requirements
  - a. As explained in BSP Memorandum No. M-2012-032, transactions concerning deposit operations, regular trade transactions involving purchases and sales of debt securities traded in an active market and credit card availments, except those with credit card lines with amount falling under the definition of "significant transactions", are excluded from the reporting requirement on related party transactions under BSP Circular No. 749.
  - b. Also, lease and other similar contracts with recurring payment transactions should only be reported once, upon approval of said transaction by the board of directors.
  - c. In case the parties involved in the transactions are both supervised by the BSP, only the lessor, in case of lease contract, or the party engaging/requesting for the services of the other financial institution, in case of other contracts, shall submit the report.

- d. Philippine Accounting Standard (PAS) 24 provides that an entity should disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. At a minimum, the disclosures shall include:
    - (i) the amount of the transactions;
    - (ii) the amount of outstanding balances and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received;
    - (iii) provisions for doubtful debts related to the amount of outstanding balances;
    - (iv) the expense recognized during the period in respect of bad or doubtful debts due from related parties.
6. The following transactions shall not be deemed related party transactions for purposes of this policy/guidelines:
- a. Executive Officer and Director compensation arrangements;
  - b. Transactions with a related party for trust, funds depository or similar payment services with fees based on those for the same or similar transactions with non-related persons;
  - c. Transactions available to all employees in general, such as: deposit transactions, credit card availments, regular trade transactions involving purchase and sale of securities traded in the active market.

#### D. Procedures

1. All related party transactions shall be submitted / elevated to the Board of Directors for ratification/approval.
2. A related party transaction shall be approved by the vote of the majority of the directors who are not related parties to the transaction.
3. The Central Operations Group (COG) shall prepare a monthly report of all related party transactions to the Audit Committee for the latter's information. Said committee shall be provided with all pertinent documents and material facts that support the transaction.
4. On a quarterly basis, COG shall also submit the required report to BSP using the existing report format.

5. If a related party transaction would be ongoing, the Board of Directors shall periodically review and assess ongoing relationships with related parties to determine and ensure compliance with the all the regulatory requirements.
6. No director may engage in any Board or Committee discussion or approval of any related party transaction in which he or she is a related party. However, such director must provide to the Board or Committee all material information reasonably requested concerning the transaction.

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