

RELATED PARTY TRANSACTION POLICY

(as of 23 January 2019)

RELATED PARTY TRANSACTIONS POLICY

A. Overview

In accordance with the regulations, policies and guidelines on Corporate Governance issued by the 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 Nos. 895 dated December 14, 2015 and 749 dated February 27, 2012)

1. **Related parties** shall cover the bank's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts direct/indirect control over or that exerts direct/indirect control over the bank; the bank's directors; officers; stockholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the financial institution (FI), hence, is identified as a related party.
2. **Close family members** are persons related to the Bank's Directors, Officers, and Stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son/daughter-in-law, brother-/sister-in-law, grandparent-in-law, and grandchild-in-law of the bank's DOS.
3. **Corresponding persons in affiliated companies** are the DOS of the affiliated companies and their close family members.
4. **Control** of an enterprise exists when there is:
 - a. Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
 - b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or

- c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- e. Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of 20 percent or more of a class of voting shares of a company.

Should the FI choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the FI shall submit a written commitment that: (1) shares owned or held are exclusively for investment purposes; (2) the FI-stockholder will not serve on the board of directors and will not nominate any candidate to serve on the board or otherwise seek board representation; (3) the FI-stockholder will have only limited contacts with bank management that are customary for interested shareholders; (4) the FI-stockholder will engage only in normal and customary transactions with the enterprise; and (5) the FI will not pledge the shares acquired to secure a loan with any institution.

5. **Related Party Transactions** are transactions or dealings with related parties of the FI, including its trust department, regardless of whether or not a price is charged. These shall include, but not limited to the following:

- On- and off-balance sheet credit exposures and claims and write-offs;
- Investments and/or subscriptions for debt/equity issuances;
- Consulting, professional, agency and other service arrangements / contracts;
- Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
- Construction arrangements/ contracts;
- Lease arrangements/contracts;
- Trading and derivative transactions;
- Borrowings, commitments, fund transfers and guarantees;
- Sale, purchase or supply of any goods or materials; and
- Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

6. **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.

7. **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.
8. **Substantial 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.
9. **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 bank¹.
10. **Arm's-length transaction.** A transaction between two (2) unrelated or unaffiliated parties acting on their own self interest and are not subject to any pressure or duress from the other party¹.
11. **Conflict of interest.** A situation in which a person or organization is involved in multiple interests, financial interest, or otherwise, one of which could possibly corrupt the motivation of the individual or organization. It is a set of circumstances that creates a risk that professional judgement or action regarding a primary interest will be unduly influenced by a secondary interest.²
12. **Materiality threshold.** This is defined as the cutoff point after which financial information becomes relevant to the decision making needs of the users. Information must be complete in all material respects in order for them to present a true and fair view of the affairs of the entity.³
13. **Internal limits.** The aggregate maximum amount of exposure to any related party that has been set by the Bank.

C. Board Duties and Responsibilities/Roles and Functions

The board of directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. Towards this end, the board of directors shall carry out the following duties and responsibilities:

1. To observe good governance and approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. A group-wide RPT policy shall be adopted,

¹ Per investopedia.

² Per wikipedia

³ Per accounting-simplified.com

encompassing all entities within the banking group, taking into account their size, structure, risk profile and complexity of operations.

2. To approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors.

All final decisions of the board on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board and stockholders' meetings.

3. To delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
4. To establish an effective system to:
 - Determine, identify and monitor related parties and RPTs;
 - Continuously review and evaluate existing relationships between and among businesses and counterparties; and
 - Identify, measure, monitor and control risks arising from RPTs.

The system shall be able to define related parties' extent of relationship with the FI; assess situations in which a non-related party (with whom a bank has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the BSP and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.

5. To maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process, whenever applicable. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the FI is well-insulated from any going concern issue of related parties.
6. To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board should ensure that senior management addresses legitimate issues on RPT that are raised. The board should take

responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals. For this purpose, the Internal Audit Center, which receives concerns from whistleblowers shall be required to submit a monthly monitoring report (format is shown in Annex C) to the Board thru the Audit Committee on the disposition of issues received during the covered month, including those referring to RPTs, regardless of amount involved.

7. To constitute an **RPT Committee** in addition to the committees prescribed under Section X141.3c(7) of the Manual of Regulations for Banks (MORB) on the creation of board committees, and to provide adequate resources to said Committee, including the authority to procure the assistance of independent experts, if necessary, to assess the fairness of RPTs. For this purpose, the constitution of an RPT Committee shall apply to banks that are part of a conglomerate and to banks directed by the BSP to constitute said Committee.

The **RPT Committee** shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson. The Committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The Compliance Officer or Internal Auditor may sit as resource persons in said Committee.

D. Responsibilities of the RPT Committee⁴

The RPT Committee shall:

1. Assist the Board of Directors in assessing material agreements with a related party that are covered by RPT regulations in determining whether to approve, ratify, disapprove to reject a related party transaction.
2. Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board and regulators/supervisors.
3. Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee shall take into account, among others, the following:

⁴ Charter of the RPT Committee is shown in Annex ____.

- a. The related party's relationship to the bank and interest in the transaction;
- b. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- c. The benefits to the bank of the proposed RPT;
- d. The availability of other sources of comparable products or services; and
- e. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The bank shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

All RPTs that are considered material based on bank's internal policies shall be endorsed by the RPT Committee to the board of directors for approval.

4. Ensure that the bank shall have in place an effective price discovery system (i.e., bidding) to determine a fair price for RPTs.
5. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the bank's affiliation or transactions with other related parties.
6. Ensure that the Bank disclose its policies governing RPTs and other unusual or infrequently occurring transactions in the Manual on Corporate Governance and material or significant RPTs reviewed and approved during the year are disclosed in the Annual Corporate Governance Report.
7. Report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
8. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
9. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

E. Roles of Senior Management and Self-Assessment Functions

Senior management shall implement appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate bases. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the FI's policy and BSP's regulations.

The internal audit function shall conduct a periodic formal review of the effectiveness of the FI's system and internal controls governing RPTs to assess consistency with the

board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

The compliance function shall ensure that the FI complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall aid in the review of the FI's transactions and identify any potential RPT that would require review by the Board or RPT Committee. It shall ensure that the RPT policy is kept updated and is properly implemented throughout the FI.

F. Disclosure and Regulatory Reporting

Banks shall adequately disclose in their Annual Report, if applicable, the overarching policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts of interest; responsibility of RPT Committee; nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material RPTs.

In addition to the required reports on DOSRI and transactions with subsidiaries and affiliates under existing regulations:

1. Universal/Commercial banks that are part of conglomerates shall report all entities in the conglomerate structure where it belongs (per annex A format of Cir. No. 895). The conglomerate structure shall likewise disclose beneficial owners of shareholdings that are in the name of PCD Nominee Corporation. The report on conglomerate structure shall be submitted to the BSP within 30 calendar days after the end of every calendar year.
2. Banks shall submit a report on material exposures to related parties, which shall include the material RPTs of their non-bank financial subsidiaries and affiliates, based on the bank's/non-bank financial institution's internal definition within 20 calendar days after the end of the reference quarter starting with the quarter ending 31 March 2016. Supervised non-bank financial subsidiaries and affiliates are therefore expected to report their material RPTs to the parent bank, which in turn shall report same to the BSP.

Transactions concerning deposit operations, credit card availments, regular trade transactions involving purchases and sales of debt securities traded in an active market, are excluded from the reporting requirement to BSP. Provided, that credit card lines with amounts falling within the definition of "material transactions" shall be reported to the BSP upon approval of the line.

Lease contracts and other similar contracts with recurring payment transactions shall only be reported once, upon approval of said transaction by the board of directors. In case the parties involved in the transactions are both supervised by the BSP, only the lessor, in case of a lease contract, or the party engaging/requesting for the services of the other bank, in case of other contracts, shall submit the report.

G. Implementing Guidelines

Related Party Transactions

1. Related party transactions (RPTs) shall be allowed provided that these comply with applicable regulatory/internal 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. RPTs shall not require the approval of the Board of Directors, except the following:
 - i. Transactions with DOSRI which presently require prior approval from the BOD under existing policy of the Bank and in accordance with Sections X148, X334 and X335 of the MORB; and
 - ii. RPTs that exceed the material threshold amounts, as approved by the Board (Annex A).
3. Approval of related party transactions with non-DOSRI and those that do not exceed the material threshold amounts shall be in accordance with the revised policy on levels of signing authority, as approved by the Board (Annex B).
4. All RPTs that cross the threshold amounts shall be considered as material RPTs and shall be subject to pre-board approval evaluation by the RPT Committee before the same are endorsed to the Board for approval;
5. All approved related party transactions shall be reported by the booking/contracting unit to the Central Operations Group (COG) upon approval of the transaction / signing and notarization of the contract for MIS/disclosure and regulatory reporting purposes using the report format shown in Annex D.
6. 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 evaluation shall not participate therein and shall abstain from voting on the approval of the transaction.
7. The Bank shall maintain a database for its related parties as well as the related party transactions and shall periodically review and update the same to capture organizational and structural changes in the FI and its related parties.
8. Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of this policy.

The prospective treatment should, however, be without prejudice to supervisory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

9 RPT at arm's length terms.

a. All transactions with related parties shall undergo the normal/regular transaction processing and approval process. Interest on loans and other credit accommodations and deposits/deposit substitutes shall be consistent with the pricing mechanism/standard of the Bank as posted weekly by Treasury Services Group in the Bank's website. Other economic terms of RPTs (e.g., price, commissions, fees, tenor, collateral requirement) shall likewise be based on existing policy of the Bank. All RPTs with deviations shall be subject to evaluation and endorsement by the RPT Committee to the Board of Directors for approval, regardless of amount, and shall be supported by written justifications, such as Account Profitability Analysis.

b. Price discovery mechanism.

i. List of Bank's ROPAs shall be posted at the conspicuous place in the Head Office and branches. The list should bear information on the indicative/minimum selling price of the property.

ii. Selection of (i) service providers for courier/janitorial/security, construction/maintenance, information technology and other services allowed to be outsourced under existing regulations, and (ii) suppliers of office and other administrative supplies, furniture, fixtures and equipments (including for transport) and systems applications, shall be subject to applicable procurement/bidding process in accordance with existing policy of the Bank.

10. Materiality thresholds and excluded transactions.

a. Materiality thresholds. A threshold amount, as approved by the Board, is prescribed for each type of transaction with each related party or group of related parties. An RPT that crossed the applicable threshold amount shall be considered material RPT and shall be subject to materiality threshold requirements, i.e., evaluation and approval by RPT Committee and BOD, respectively, and reporting to the BSP.

b. Excluded transactions. The following transactions shall not be deemed related party transactions and shall therefore be excluded from materiality thresholds requirement and reporting to the BSP:

i. Transactions concerning deposit operations;

ii. Regular trade transactions involving purchases and sales of debt securities traded in an active market; and

- iii. Transactions allowed/granted under BSP-approved fringe benefit programs.
 - iv. Executive Officer and Director compensation arrangements.
11. *Internal limits for individual and aggregate exposures.* To ensure that RPTs are within prudent levels, the Bank shall establish internal limits for individual and aggregate exposures, as follows:
- i. DOSRI – Ninety percent (90%) of the existing prudential limits for both individual and aggregate exposures;
 - ii. Subsidiary/affiliate – Ninety percent (90%) of the existing prudential limits for both individual and aggregate;
 - iii. Other related parties:
 - a. Individual – Eighty percent (80%) of single borrower’s limit (SBL); and
 - b. Aggregate - Eighty percent (80%) of the existing prudential limits.

Existing regulations on the required collateral for exposures to DOSRIs and subsidiaries and affiliates (i.e. 70% of the exposure for DOSRI; 95% of Bank’s net worth for subsidiaries and affiliates) shall also be observed for all RPTs.

Exclusions from ceilings prescribed under Subsection X328.5c (for individual and aggregate exposures to subsidiaries and affiliates), Subsection X330.1 (for individual exposures to DOSRIs) and Section X332 (for aggregate exposure to DOSRIs) shall likewise be complied with.

The internally set limits shall be tied in with the bank’s internal definition of capital. Breaches in limits shall be reported to the Board of Directors with the decision of the Board to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meetings.

12. *Whistle blowing mechanisms.* The Bank has an existing whistleblowing mechanism consistent with the corporate values and codes of conduct set by the board of directors. The policy encourages employees to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable transactions that would include RPT. The current whistle blowing policy includes guidance on how and by whom legitimate material concerns should be reported, investigated and addressed by an objective independent internal body.
13. *Restitution of losses and other remedies for abusive RPTs.* Whenever applicable, the Bank shall discontinue a related party transaction if found abusive and demand restitution of losses or opportunity costs it incurred from such related party transaction.

Disclosure/Reportorial Requirements

1. The Bank shall, in addition to the required disclosure under Philippine Accounting Standard (PAS) 245, disclose in its Annual Report the following:
 - i. Policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflict of interest;
 - ii. Responsibilities of RPT Committee; and
 - iii. Nature, terms and conditions, as well as original and outstanding individual and aggregate balances including off-balance sheet commitments, of material RPTs.

The disclosures should not result in overlapping of information.

2. Lease and other similar contracts with recurring payment transactions should only be reported once, upon approval of said transaction by the board of directors.
3. 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.
4. Procedures
 - i. All related party transactions that exceed the material threshold amount shall be submitted to the RPT Committee for review and if necessary, for endorsement to the Board for approval.
 - ii. RPTs that are below the material threshold amount shall be presented to the respective supervising management committee for approval.
 - iii. Transactions with DOSRI, regardless of amount shall be reviewed and endorsed to the Board by the RPT Committee for approval.
 - iv. The Central Operations Group (COG) shall prepare a monthly report of all related party transactions to the RPT Committee for the latter's information.

⁵ The following are the minimum required disclosures in the Annual Report under the Philippine Accounting Standard (PAS) 24:

- 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; and
- iv. the expense recognized during the period in respect of bad or doubtful debts due from related parties.

Said committee shall be provided with all pertinent documents and material facts that support the transaction.

- iv. COG shall also be in-charge of submitting the required report to BSP using the report format shown in Annex A under BSP Cir. No. 895.
- v. 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.
- vi. 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.

Internal Reports

For internal monitoring purposes, the following reports on related party transactions shall be rendered by the Central Operations Group, which may be generated using the existing data warehouse system.

Description	Recipient	Frequency/Deadline	Remarks
List of Outstanding RPTs	RPT Committee (RPTC), Appropriate Management Committee, Board of Directors (BOD), Compliance Office (CO), Enterprise-wide Risk Management Group (ERMG), concerned units	Quarterly/7 working days from end of reference quarter.	Report format is shown in Annex K.
List of Past Due Exposures to RPTs	RPTC, Credit Committee (Crecom), BOD, CO, ERMG concerned lending units, RSAMU/Legal Services Group (LSG)	Monthly/7 working days from reference month	Report format is shown in Annex K.
List of Maturing Loans Granted to RPT	Crecom, concerned lending units, ERMG	Weekly/3 days prior to covered week	Report format is shown in Annex K.
List of Approved RPTs	RPT Committee, appropriate management committee, concerned units, CO, LSG	Weekly/3 days from reference week	Report format is shown in Annex K.
