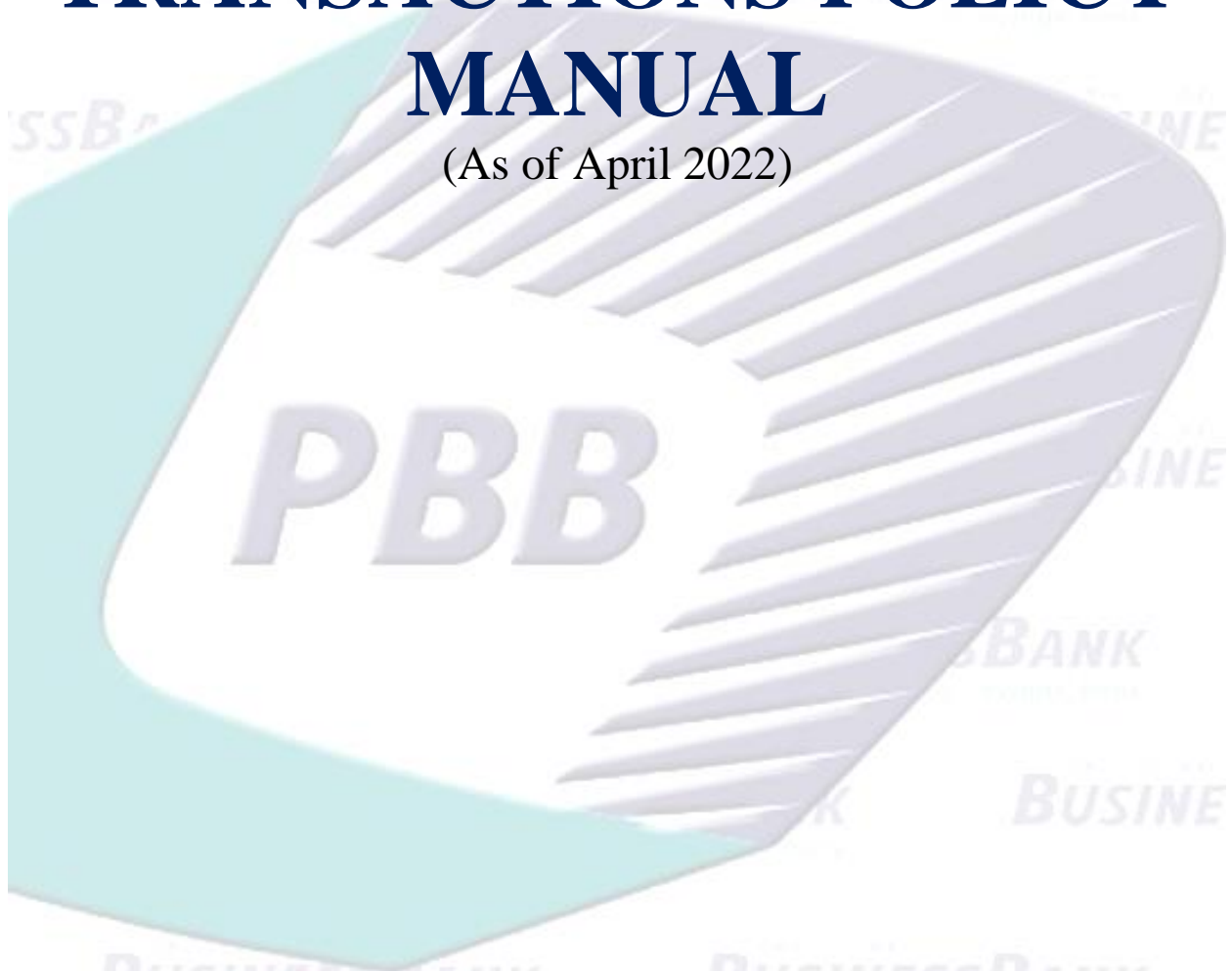


**RELATED PARTY  
TRANSACTIONS POLICY  
MANUAL**  
(As of April 2022)



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## TABLE OF CONTENTS

A. Overview	<b>3</b>
B. Definition of Terms	<b>3</b>
C. Board Duties and Responsibilities/Roles and Functions	<b>10</b>
D. Responsibilities of the RPT Committee	<b>12</b>
E. Roles of Senior Management and Self Assessment Functions	<b>13</b>
F. Creation of RPT Management Committee	<b>13</b>
G. Disclosure and Regulatory Reporting	<b>14</b>
H. Implementing Guidelines	<b>15</b>
I. Disclosure and Reportorial Requirements	<b>22</b>
J. Internal Reports	<b>24</b>
K. ANNEXES	

<ul style="list-style-type: none"> <li>• Annex 1 – Report on RPT Concerns Received from Whistle Blower</li> <li>• Annex 2 – Booking Unit Report to Central Operations Group</li> <li>• Annex 3 – List of Outstanding RPTs, List of Past Due Exposures to RPTs, List of Maturing Loans Granted to RPT, List of Approved RPTs</li> <li>• Annex 4 – Annex A Format of BSP Circular 895</li> <li>• Annex 5 – Advisement Report per SEC Memo Cir.10 Series of 2019</li> <li>• Annex 6 – RPT Vetting of Arm's Length Sheet</li> </ul>	
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**RELATED PARTY TRANSACTIONS POLICY MANUAL**

**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. **Affiliate.** shall refer to an entity linked directly or indirectly to a Bank by means of:
  - (1) Ownership, control as defined under Item "d" hereof, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa;
  - (2) Interlocking directorship or officership, where the director or officer concerned owns, controls, as defined under Item "d" hereof, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity;
  - (3) Common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the Bank and at least twenty percent (20%) of the outstanding voting stock of the entity;

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- (4) Management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity; or
- (5) Permanent proxy or voting trusts in favor of the Bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa.
- 2. 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 party<sup>1</sup>.
- 3. 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.<sup>2</sup>
- 4. Control** of an enterprise exists when there is:
1. Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
  2. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
  3. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
  4. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
  5. 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 Bank choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the Bank shall submit a written commitment that:

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<sup>1</sup>Per investopedia.

<sup>2</sup>Per wikipedia

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- (1) shares owned or held are exclusively for investment purposes;
  - (2) the Bank-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 Bank-stockholder will have only limited contacts with bank management that are customary for interested shareholders;
  - (4) the Bank-stockholder will engage only in normal and customary transactions with the enterprise; and
  - (5) the Bank will not pledge the shares acquired to secure a loan with any institution.
- 5. Close family members** shall refer to 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.
- 6. Corresponding persons in affiliated companies** are the DOS of the affiliated companies and their close family members.
- 7. Directors;**
- (1) directors who are named as such in the articles of incorporation;
  - (2) directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of govern
  - (3) Common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the Bank and at least twenty percent (20%) of the outstanding voting stock of the entity;
- 8. Independent directors.** An independent director shall refer to a person who;
- (1) is not or was not a director, officer or employee of the Bank, it subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment;

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- (2) is not or was not a director, officer, or employee of the Bank's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
  - (3) is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
  - (4) is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the Bank or any of its related companies or of any of its substantial stockholders;
  - (5) is not acting as a nominee or representative of any director or substantial shareholder of the Bank, any of its related companies or any of its substantial shareholders;
  - (6) is not or was not retained as professional adviser, consultant, agent or counsel of the Bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;
  - (7) is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the Bank or with any of its related companies or with any of its substantial Manual of Regulations for Banks – Part One Page 72shareholders, whether by himself or with other persons or through a firm of which he is a partner or accompany of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;
  - (8) was not appointed in the Bank, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;
  - (9) is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders; and
  - (10) is not employed as an executive officer of another company where any of the Bank's executives serve as directors.

**9. Internal limits.** The aggregate maximum amount of exposure to any related party that has been set by the Bank.

**10. 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.<sup>3</sup>

**11. Officers** shall include the chief executive officer (CEO) , executive vice president, senior vice-president, vice president, general manager, treasurer, secretary, trust officer and others mentioned as officers of the Bank, or those whose duties as such are defined in the by-laws, or are generally known to be the officers of the Bank (or any of its branches and offices other than the head office) either through announcement, representation, publication or any kind of communication made by the Bank: Provided, That a person holding the position of chairman or vice-chairman of the board of directors or another position in the board of directors shall not be considered as an officer unless the duties of his position in the board of directors include functions of management such as those ordinarily performed by regular officers: Provided, further, That members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.

**12. Stockholder** shall refer to any stockholder of record in the books of the bank, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholdings in the lending bank, individual and/or collectively with the stockholdings of:

- (i) his spouse and/or relative **within the first degree by consanguinity or affinity** or legal adoption;
- (ii) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and
- (iii) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or

<sup>3</sup>Per accounting-simplified.com

firm, amount to one percent (1%) or more of the total subscribed capital stock of the bank.

**13. Related Interest (RI):**

- (1) Spouse or relative within the **first degree of consanguinity or affinity, or relative** by legal adoption, of a director, officer or stockholder of the bank;
- (2) Partnership of which a director, officer, or stockholder of a bank or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
- (3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
- (4) Corporation, association or firm of which any or a group of directors, officers, stockholders of the lending bank and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;
- (5) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items "e(2)" and "e(4)" of this Section;
- (6) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the lending bank or which controls majority interest of the bank pursuant to Sec. 362 (Definition of terms, Item "g");
- (7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the lending bank; and
- (8) Non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers of related banks.



**14. Related parties** shall cover the following:

- a. Bank's directors, substantial shareholders and their spouses and relatives **within the fourth civil degree of consanguinity and affinity**, legitimate, **illegitimate** and common-law.
- b. It shall also cover the Bank's Officers with rank of **AVP and above**.
- c. It also covers the Bank's parent, subsidiary, fellow subsidiary, Associate, affiliate, joint venture or any entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

**15. Related Party Transactions** are transactions or dealings with related parties of the Bank, 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.

**16. Subsidiary.** A corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.

**17. Substantial shareholder.** A person or group of persons whether natural or juridical, owning such number of shares that will allow such person or group 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.

- 18. 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".

### **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, 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 Bank; 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 whistle-blowing. 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<sup>1</sup>) 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 Committee**

The RPT Committee shall:

1. 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.
2. 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:
  - i. The related party's relationship to the bank and interest in the transaction;
  - ii. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - iii. The benefits to the bank of the proposed RPT;
  - iv. The availability of other sources of comparable products or services; and
  - v. 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.

3. 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.
4. 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.
5. 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.
6. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
7. 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.

#### **F. Creation of RPT Management Committee**

Proposed RPT Management Committee Members for vetting of RPT below Php10M:

Chairperson	Credit Management Group Head
Members	Retail Banking Group (RBG) Head Operations and Control Group (OCG) Head Human Resource Group Head Chief Compliance Officer Chief Risk Officer
Secretariat	Compliance Center representative

#### **Process of Vetting of RPT Management Committee**

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The department or any other units initiating an RPT shall be responsible for initial vetting to determine if a transaction is an RPT and if it is covered by the parameters/guidelines of the RPT Policy. Hence, they will determine the relationship as well as determination of those transactions falling within the RPT Management Committee threshold.

The Initiating Unit shall be responsible for preparing the Approval Memorandum together with the RPT Vetting Sheet. The latter documentations for RPTs below Php10M shall be submitted and presented to RPT Management Committee for approval.

Compliance Center shall act as the RPT Management Committee Secretariat. Hence, the proposing unit shall inform Compliance Center should there be related party transactions that they have determined to be within the criteria.

The role of Compliance Center for the vetting shall be for advisory purposes and to give guidance on inquiries and clarifications if a transaction shall fall within the parameters and thresholds to be considered an RPT. Further, Compliance Center shall be in charge of receiving items for agenda/approval/endorsement of the RPT Management Committee as well as the RPT Committee. Compliance Center shall sort those items for RPT Management Committee and those which shall fall under RPT Committee. Compliance Center shall stamp and sign those that they have endorsed for inclusion in the agenda.

**All RPTs shall first pass thru the RPT Management Committee prior to endorsement to the RPT Committee then to the Board depending on the prescribed thresholds.**

The Initiating Unit shall provide pertinent documentations (approval memorandum and supporting documents, if applicable) and inform OCG of those non-material RPTs (below Php10M) approved by the RPT Management Committee for centralized monitoring of all related party transactions.

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 Bank 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 Bank'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 Bank.

## **G. 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.

## **H. Implementing Guidelines**

### **1. Related Party Transactions**

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- a. 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.

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
- b. 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.
- c. 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;
- d. 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.
- e. 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.
- f. 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.
- g. 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 Bank and its related parties.

- h. 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.

<b>COVERED TRANSACTION</b>	<b>THRESHOLD **</b>	<b>REVIEWING AUTHORITY</b>	<b>APPROVING AUTHORITY</b>
Loans and other credit accommodations (including off-balance sheet commitments/guarantees)/borrowings and fund transfers	Php 10 Million and Up	RPT Mancom	RPT Committee
	Below Php 10 Million	Credit Committee	RPT Mancom
Investments and/or subscriptions for debt/equity issuances	Php 10 Million and Up	RPT Mancom	RPT Committee
	Below Php 10 Million	Credit Committee	RPT Mancom
Consulting, professional, agency and other service arrangements / contracts;	Php 10 Million and Up	RPT Mancom	RPT Committee
	Below Php 10 Million	Credit Committee	RPT Mancom
Purchases and sales of assets (other than ROPA), including transfer of technology and intangible	Php 10 Million and Up	RPT Mancom	RPT Committee
		Credit	RPT Mancom

items (e.g. research and development, trademarks and license agreements) whether in cash or installment	Below Php 10 Million	Committee	
Construction arrangements/ contracts <sup>4</sup>	Php 10 Million and Up  Below Php 10 Million	RPT Mancom  Credit Committee	RPT Committee  RPT Mancom
<b>COVERED TRANSACTION</b>	<b>THRESHOLD **</b>	<b>REVIEWING AUTHORITY</b>	<b>APPROVING AUTHORITY</b>
Lease Arrangements / Contracts	Php 10 Million and Up  Below Php 10 Million	RPT Mancom  Credit Committee	RPT Committee  RPT Mancom
Trading and derivative transactions	Php 10 Million and Up  Below Php 10 Million	RPT Mancom  Credit Committee	RPT Committee  RPT Mancom
Sale of Real and Other Properties Acquired (ROPA), whether in cash or installment	Php 10 Million and Up  Below Php 10 Million	RPT Mancom  Credit Committee	RPT Committee  RPT Mancom

## 2. RPT at arm's length terms.

<sup>4</sup> Subject to bidding

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.

**i. Documentation of RPT Vetting Sheet process**

In compliance with the requirement of vetting of transactions with related parties per BSP Cir 895, the Bank's hereby adopts the implementation of the RPT Vetting sheet.

The latter allows the documentation of the vetting conducted which includes the comparison of terms and conditions given to a related party against a non-related party with similar transaction.

First step in accomplishment of the form, is to identify the relationship, the proposing unit shall indicate the amount involved/exposure to the said transaction. The proposing unit shall then indicate the price discovery mechanism as required per BSP Cir 895 that they adopted in order to ensure that the transaction is conducted at arms' length and that the pricing of the transaction is not favorable only to the related party. Price discovery mechanism includes posting/publication of prices, conducting of bidding, appraisals by third party, acquiring services of an external expert, and conducting survey within same industry/type of transaction (Includes proposals from other competitors).

After the price discovery mechanism that was implemented was accomplished, the proposing unit shall not accomplish the terms and conditions portion of the vetting sheet in order to compare the terms given to the related party for the transaction. The proposing unit shall choose to compare the terms against a non-related party with similar transaction. Comparison may also be done against the proposals received from another non-related party.

If there are variances for the terms and conditions per comparison, the proposing unit should provide justifications for the differences. The endorsing body (RPT Management Committee/RPT Committee) shall determine whether the justifications along with the supporting documents are valid and would warrant their endorsement/approval. Otherwise, the

transaction with the related party may not be endorsed/ approved as it will be determined to be done in violation of BSP Cir 895 or not within arms' length terms.

### **3. Price discovery mechanism.**

- 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.
- 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 equipment (including for transport) and systems applications, shall be subject to applicable procurement/bidding process in accordance with existing policy of the Bank.

### **4. 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.

**(i) Per Internal threshold per transaction:**

RPT Management Committee Approval – below Php10M;

RPT Committee Endorsement for Board Approval – Php10M and above

**(ii) Per SEC MC No.10 S.2019 materiality: 10% or more of total assets**

**Aggregate exposures per client shall also be monitored if still compliant with the RPT limits. The latter shall be initially checked by Compliance Center representative then vetted by RPT Management Committee as well as RPT Committee based on existing thresholds.**

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## **5. 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.

## **6. 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 prescribed under Sections X330 and X331 of the MORB;
- ii. Subsidiary/affiliate – Ninety percent (90%) of the existing prudential limits for both individual and aggregate exposures as prescribed under Subsection X328.5 of the MORB;
- 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.

## **7. Whistle blowing mechanisms.**

The Bank has an existing whistle-blowing 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.

## **8. 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.

### **I. Disclosure/Reportorial Requirements**

1. The Bank shall, in addition to the required disclosure under Philippine Accounting Standard (PAS) 24<sup>5</sup>, disclose in its Annual Report the following:

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<sup>5</sup> 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.

- 
- 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.

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.

### 3. 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. *All DOSRI transactions will go through the Board for approval regardless of amount.*
- 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. Said committee shall be provided with all pertinent documents and material facts that support the transaction. 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.

## J. 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 <b>Annex 3</b>
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 <b>Annex 3.</b>
List of Maturing Loans Granted to RPT	Crecom, concerned lending units, ERMG	Weekly/3 days prior to covered week	Report format is shown in <b>Annex 3.</b>
List of Approved	RPT Committee,	Weekly/3 days from	Report format

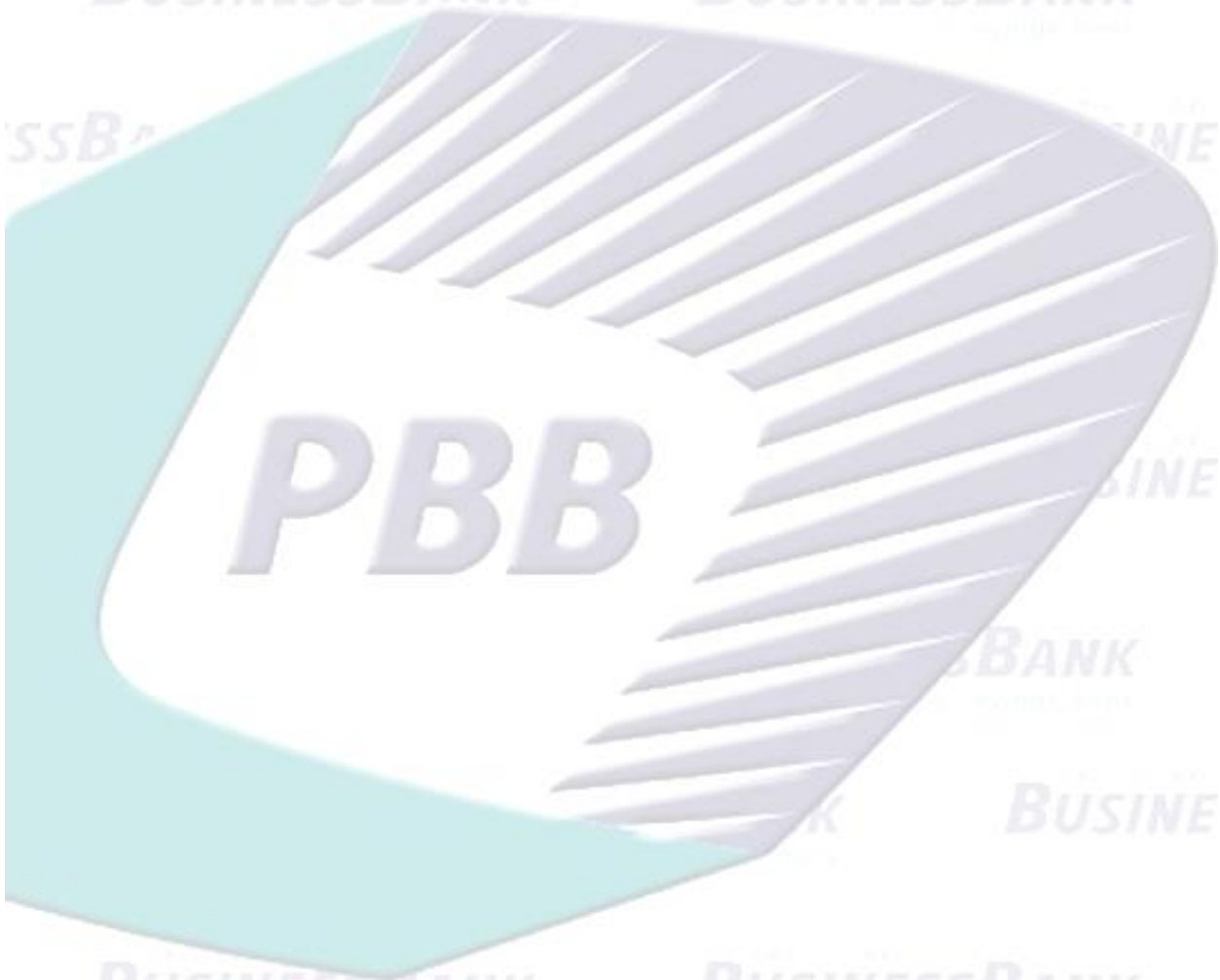


RPTs	appropriate management committee, concerned units, CO, LSG	reference week	is shown in <b>Annex 3.</b>
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**ANNEXES**

Annex 1 – Report on RPT Concerns Received from Whistle Blower
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**BUSINESS BANK**

**BUSINESS BANK**

S:

IE

Center/Group: \_\_\_\_\_  
Report of Approved Related Party Transactions  
Date: \_\_\_\_\_

Date of Approval	Account Name	Nature/Description of Transaction	Approved Amount

Prepared by: \_\_\_\_\_

Noted by: \_\_\_\_\_  
Center/Group Head

**BUSINESS BANK**

**BUSINESS BANK**

Annex 2 – Booking Unit Report to Central Operations Group

Annex 3 – List of Outstanding RPTs, List of Past Due Exposures to RPTs, List of Maturing Loans Granted to RPT, List of Approved RPTs

Center/Group: \_\_\_\_\_  
 List of Outstanding Related Party Transactions  
 Date: \_\_\_\_\_

Account Name	PN Number	Date Granted	Date of Maturity	Nature/Description of Transactions	Collateral	Original Amount	O/S Balance	STATUS
A. DOSRI								
B. AFFILIATE								
C. RELATED PARTY								

Prepared by: \_\_\_\_\_ Noted by: \_\_\_\_\_ Approved by: \_\_\_\_\_



Center/Group: \_\_\_\_\_  
**Report of Past Due Exposures to Related Party Transactions**  
 Date: \_\_\_\_\_

Account Name	PN Number	Date Granted	Date of Maturity	Nature/Description of Transactions	O/S Balance	Remarks

Prepared by: \_\_\_\_\_ Noted by: \_\_\_\_\_ Approved by: \_\_\_\_\_





Center/Group: \_\_\_\_\_  
**Report of Maturing Loans Granted to Related Party Transactions**  
 Date: \_\_\_\_\_

Account Name	PN Number	Date Granted	Date of Maturity	Nature/Description of Transactions	O/S Balance

Prepared by: \_\_\_\_\_

Noted by: \_\_\_\_\_  
 Center/Group Head

BUSINESS BANK

BUSINESS BANK

Center/Group: \_\_\_\_\_  
Report of Approved Related Party Transactions  
Date: \_\_\_\_\_

Date of Approval	Account Name	Nature/Description of Transaction	Approved Amount

Prepared by: \_\_\_\_\_

Noted by: \_\_\_\_\_  
Center/Group Head



**Annex 4 – Annex A Format of BSP Circular 895**

Category: **Annex A**  
Category A-1  
Deadline: 30 calendar days after the end of the calendar year

Name of Bank	Code
Address	

**Report on Conglomerate Structures**

As of _____ (Year-End)
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REPUBLIC OF THE PHILIPPINES)  
\_\_\_\_\_ ) S.S.

I solemnly swear that all matters set forth in this report are true and correct, to the best of my knowledge and belief.

\_\_\_\_\_  
(Signature of Officer/Alternate)

SUBSCRIBED AND SWORN TO BEFORE ME this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_, affiant exhibiting to me his  
Community Tax Certificate No. \_\_ A  
on \_\_\_\_\_ 20 \_\_\_\_.

Notary Public  
Until December 31, 200 \_\_\_\_\_  
PTR No. \_\_\_\_\_  
Place \_\_\_\_\_

Doc. No. \_\_\_\_\_  
Page No. \_\_\_\_\_  
Book No. \_\_\_\_\_  
Series of \_\_\_\_\_

**Annex 5 – Advisement Report per SEC Memo Cir.10 Series of 2019**



Annex A to SEC MC No. \_\_\_\_, Series of 2019

**ADVISEMENT REPORT ON  
MATERIAL RELATED PARTY TRANSACTIONS**

Reporting PLC: ..... SEC Identification Number:.....  
Name of Related Party: ..... Execution Date of Transaction: .....  
Relationship between the Parties including financial/non-financial interest:.....

Type/Nature of Transaction and Description of Assets Involved	Terms and Conditions	Rationale for Entering into the Transaction	Total Assets <sup>1</sup> of Reporting PLC	Amount/ Contract Price	Percentage of the Contract Price to the Total Assets of the Reporting PLC	Carrying Amount of Collateral, if any	Approving Authority <sup>2</sup>

Annex A to SEC MC No. \_\_\_\_, Series of 2019

**SIGNATURES**

Pursuant to the requirements of the Commission, the company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

(Name of Reporting PLC)

(Name of Related Party)

.....  
Name, Signature of the Corporate Secretary/  
Authorized Representative<sup>3</sup>

.....  
Name, Signature of the Related Party/Authorized Representative<sup>3</sup>





Annex 6– RPT Vetting of Arm’s Length Sheet



**RPT VETTING OF ARM’S LENGTH SHEET**

**ACCOUNT NAME:**

**ACCOUNT RELATIONSHIP:**

- DOSRI Pls specify: \_\_\_\_\_  
 OTHER RPT Pls specify: \_\_\_\_\_

**TYPE OF TRANSACTION:**

**AMOUNT/CONTRACT PRICE:**

**PRICE DISCOVERY MECHANISM:**

- Publication/Posting of the property on sale with indicative/minimum selling price  
 Opening the transaction to a Bidding Process  
 Acquiring services of internal expert  
 Conducted survey within same industry/type of transaction (Includes proposals from other competitors)

**TERMS AND CONDITIONS:**

TERMS/CONDITIONS	RELATED PARTY	NON-RELATED PARTY WITH SIMILAR TRANSACTION	JUSTIFICATION FOR VARIANCE
Interest Rate			
Term			
Collateral/Security			
Other significant terms/conditions:			
1. i.e. commissions			
2. i.e. fees/charges			
3. i.e. down payment			

**If Renewal/If Non-Related Party then subsequently becomes a Related Party and vice-versa:**

Fill-up the table for the changes of the terms and conditions

TERMS/CONDITIONS	PREVIOUS TERMS AND CONDITIONS	PROPOSED TERMS AND CONDITIONS	REMARKS/JUSTIFICATIONS
Interest Rate			
Term			
Collateral/Security			
Other significant terms/conditions:			
4. i.e. commissions			
5. i.e. fees/charges			
6. i.e. down payment			

Prepared by:

Checked/Reviewed by:

Received by:

**COMPLIANCE OFFICE PERSONNEL**

