



PHILIPPINE
BUSINESSBANK
a savings bank

RELATED PARTY TRANSACTIONS POLICY

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RELATED PARTY TRANSACTIONS POLICY

(In compliance with SEC Memo Cir. 10 Series of 2019)

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.

Further, in adherence to SEC Memo Cir. 10 Series of 2019, whereby adopt the following Rules on Material Related Party Transactions (Material RPT Rules). The Bank recognizes that transactions between and among related parties may create financial, commercial and economic benefits to individual institutions and to the entire group where said institutions belong. In this regards, related party transactions (RPTs) are generally allowed provided, that when RPTs amounts to ten percent (10%) or higher of a company's total assets, it shall be considered as material related party transactions subject to these Rules.

B. Definition of terms

Related party—shall cover the Bank's directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity and affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the Bank. 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.

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 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.

Related Party Transaction - A transfer of resources, services or obligations between the Bank and a related party, regardless of whether 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 should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

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.

Affiliate -Refers to an entity linked directly or indirectly to the Bank through any one or a combination of any of the following:

- (1) Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the Bank, or vice-versa;
- (2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;

- (3) Common stockholders owning at least ten percent (10%) of the outstanding voting stocks of the Bank and the entity;
- (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 vice-versa

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.

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.

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 (per investopedia).

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 judgment or action regarding a primary interest will be unduly influenced by a secondary interest (per Wikipedia).

Material Related Party Transactions - Any Related Party Transactions (RPTs) either individually or in aggregate over a twelve month (12)-month period with the same related party, amounting to ten percent (10%) or higher of the Bank's total assets based on its latest audited financial statement.

Internal Limits - The aggregate maximum amount of exposure to any related party that has been set by the bank.

Associate - An entity over which the Bank holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the Bank has significant influence.

Significant Influence - The power to participate in the financial and operating policy decisions of the company but has no control or joint control of those policies.

Related Party Register - A record of the organizational structural composition, including any change thereon, of the company and its related party.

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 the company's shareholders, and other stakeholders. Towards this end, the board of directors shall carry out the following duties and responsibilities: