

## RELATED PARTY TRANSACTIONS COMMITTEE

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### I. PURPOSE

The Related Party Transactions Committee (RPTCom) shall assist the Board of Directors (BOD) in fulfilling its corporate governance responsibility related to the safety and soundness of the Bank's transactions with Related Parties, and ensure that such are conducted at arm's-length terms and conditions pursuant to relevant laws, regulations and Bank policies.

### II. COMPOSITION

The members of the RPTCom shall be appointed annually by the BOD. It shall be composed of five (5) members of the BOD, 3 of whom shall be independent directors including the Chairperson. The RPTCom shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. The heads of Audit, Compliance, Executive Support Group, and Credit Group shall act as resource persons to the RPTCom.

Chairman	:	Independent Director
Regular Members	:	Independent Director Independent Director Non-Executive Director Non-Executive Director
Adviser	:	One (1) Board Adviser
Secretariat	:	Compliance Division
Resource Persons	:	Chief Compliance Officer Chief Audit Executive Executive Support Group Head Credit Group Head

### III. DUTIES AND RESPONSIBILITIES OF THE RPT COMMITTEE

1. The Committee shall review and vet proposals of material Related Party Transactions before they are presented to the Board for approval pursuant to the Procedural Guidelines attached as **Annex "A"** of this Charter, and following the Related Party Transactions Policy attached as **Annex "B"** of this Charter.
2. The Committee shall **confirm** Related Party Transactions below materiality threshold vetted and approved by Designated Approving Committees.
3. The Committee shall confirm FX transactions with Related Parties.
4. The Committee shall confirm specific loan rates granted to Related Parties during drawdown.
5. The Committee shall maintain a record of all Related Party Transactions coursed through it to facilitate verification of such transaction by internal and external auditors and regulators.
6. The Committee shall receive the report on the month-end outstanding balances of the Related Parties Transactions for the Committee to know the overall outstanding transactions and exposure to Related Parties.
7. The Committee shall report monthly to the Board of Directors the status and aggregate exposures to Related Parties.

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8. The Committee shall oversee the implementation of the Bank's system for identifying, monitoring, measuring, controlling and reporting Related Party Transactions, including a periodic review of Related Party Transactions' policies and procedures.
9. The Committee shall ensure that all Related Party Transactions undergo periodic audit review including write-off of exposures.
10. The Committee shall vet the Bank's Related Party Disclosures in the Notes to Audited Financial Statement of the Bank.
11. An RPT Committee member who is also a member of the Audit Committee shall abstain from participating in the discussion of control issues or concerns raised that are required by the Audit Committee to be corrected, addressed or investigated. Such director should not be physically present or should step out of the meeting during the discussion.

### IV. DUTIES AND RESPONSIBILITIES OF THE RPT ADVISER

1. Assist in the evaluation of relationships to ensure that related parties are identified and captured
2. Assist in the evaluation of material related parties
3. Assist the Committee in ensuring that RPTs are done on an arm's length basis
4. Provide advice, guidance and insights to the Committee for a better understanding of the operations, issues or risks attendant to the business or industry segment of the related counter party within his area of expertise or professional involvement.

### V. MEETINGS

The Committee shall meet as often as necessary. Special meetings may also be called by the Chairman as necessary.

The Committee meeting may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing as long as the committee members attending the meeting can actively participate in the deliberations on matters taken up. Notwithstanding, every Committee member shall participate in at least fifty percent (50%) and shall physically attend at least twenty five percent (25%) of all Committee meetings every year.

The Committee Secretariat shall prepare the agenda for each meeting and send out notices at least two (2) banking days before the meeting. The Secretariat shall likewise prepare and distribute the minutes of the meeting and prepare other reports as maybe required by the Board.

## *Annex “A”*

### **Procedural Guidelines**

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1. Related Party Transactions shall be submitted by the proponent units to the RPTCom upon endorsement of the Endorsing Authorities stated below:

<b>TRANSACTION</b>	<b>PROONENT UNIT</b>	<b>ENDORSING AUTHORITY</b>
Credit Accommodations	Lending Units	Credit Committee (CRECOM) Executive Committee(EXCOM)
Purchase/Sale/Transfer/Lease of Assets ( <i>including extensions of lease</i> )	Asset Management & Recovery Division	Executive Committee(EXCOM)
Transfer of Technology	Information Technology Services Division (ITSD)	IT Steering Committee
Trust Services Group Transactions	Trust Services Group	Trust and Investment Committee
Treasury Group Transactions	Treasury Group	Assets and Liabilities Committee
Provision & Receipt of Services	HO Unit	Senior Executive Team (SET)

*Existing regulations on DOSRI and SBL shall apply.*

2. Upon endorsement of the pertinent Endorsing Authority, the proposal media shall be submitted to the Related Party Transactions Committee (RPTCom) Secretariat, which shall table the proposal for agenda of the RPTCom.
3. The RPTCom shall review the proposed related party transaction endorsed to it, by considering the following:
  - 3.1.1 Transaction and Transacting Parties  
Transaction is conducted in the regular course of business; Nature of transaction and identity of the parties involved in the transaction, ownership structure and their relationship to the Bank;
  - 3.1.2 Terms and Conditions  
Whether the terms of the transaction or relationship are no less favorable than terms generally offered/available to an unrelated party for similar transaction under similar circumstances;
  - 3.1.3 Purpose and Rationale  
Business purpose, timing, rationale and benefits of the transaction or relationship;

3.1.4 Monetary Value

Appropriate monetary value of the transaction and the approximate money value of the Related Party's interest in the transaction;

3.1.5 Valuation Methodology

Valuation methodology used and alternative approaches to valuation as are applicable to the transaction, i.e. independent appraisal of the property, sealed/public bidding;

3.1.6 Potential Counterparties

Information concerning potential counterparties in the transaction;

3.1.7 Provisions or Limitations

Description of provisions, conditions or limitations imposed as a result of entering into the transaction;

3.1.8 Reputational Risk

Whether the proposed transaction may give rise to any potential reputational risk issues as a result of or in connection therewith;

3.1.9 Director's Independence

Whether the proposed transaction may impact on director's independence;

3.1.10 Conflict of Interest

Extent that such transaction or relationship may present potential improper conflict of interest; or

3.1.11 Comparison with non-related party - Price Discovery Mechanism

Available information that the terms of the RPT are comparable to those generally available to similarly situated non-related parties, the industry benchmark for similar transactions, terms given by other banks to the RP, or the availability of other sources of comparable products and services.

Procedures for the selection of comparable non-related parties with which the terms of the RPTs are benchmarked:

- i. Initially compare with non-RPT in the same industry.
- ii. If no comparable borrower in the same industry, compare with non-RPT borrower with the same asset size.
- iii. If still no comparable borrower, compare with all other available non-RPT borrowers with the same proposed credit facilities.
- iv. In case none among the existing borrowers is considered comparable, justifications shall be presented for the proposed terms vis-a-vis the closest account available

The terms of the comparable should be presented in the RPT Memo side by side with the terms of RP.

Vetting and approval of the proposals endorsed to the RPTCom must only be through a regular or special Committee meeting.

In reviewing proposals endorsed to it, the RPTCom may consult third-party experts if necessary.

4. Based on the above and other factors or circumstances that it deems relevant, the RPTCom shall, after its appropriate review, indicate the action taken by the committee with a stamp in a space provided for in the proposal (endorsed for approval/not endorsed for approval). The RPTCom will forward the proposal, with its action, to the Board of Directors through the Corporate Secretary.
5. For monitoring purposes, the RPTCom Secretariat shall maintain a Summary of Related Party Transactions reviewed by RPTCom.

## *Annex “B”*

### **Related Party Transactions Policy**

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#### **1. Introduction**

The Bank recognizes that certain transactions involving Related Parties present a heightened risk of conflicts of interests or the perception thereof. To ensure that Transactions with Related Parties, as these terms are subsequently defined, are entered into on arm's length bases and are consistent with the Bank's and its stakeholders' best interests, the Bank promulgates this Related Party Transactions Policy that shall govern the handling of Related Party Transactions.

#### **2. Definitions**

2.1 **Related Parties** are as follows:

2.1.1 Directors, Officers, Stockholders, and Related Interests (DOSRI) of the Bank, as defined in Section 131 of the Manual of Regulations for Banks (MORB);

2.1.2 persons related to the Bank's director, officer and stockholder(DOS) within *the second degree* of consanguinity or affinity, legitimate or common-law, and these include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother-/sister-in-law, grandparent-in-law of the Bank's DOS;

2.1.3 any party that the Bank exerts direct/indirect Control over, or that exerts direct/indirect Control over the Bank, including its Subsidiaries, Affiliates and special purpose entities;

2.1.4 corresponding persons in affiliated companies, who are the DOS and their relatives within *the second degree* of consanguinity or affinity, legitimate or common-law in the following companies:

2.1.4.1 corporate Related Interests, as defined in Section 131 of the Manual of Regulations for Banks (MORB);

2.1.4.2 subsidiaries and affiliates of the Bank; or

2.1.4.3 any entity that the Bank exerts direct/indirect Control over or that exerts direct/indirect Control over the Bank, including their Subsidiaries, Affiliates and special purpose entities.

Officers in affiliated companies shall include principal officers identified in the General Information Sheet (GIS) and Senior Officers of SMC Group of Companies for Treasury and Finance with rank of Vice President (VP) and up and who has significant influence/control in the company that the Bank has or will have dealings with.

- 2.1.5 any party that has direct or indirect linkages to the bank identified as follows:
  - 2.1.5.1 Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;
  - 2.1.5.2 interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
  - 2.1.5.3 common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity;
  - 2.1.5.4 permanent proxy or voting trusts in favor of the bank constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa.
- 2.1.6 Other persons and juridical entities whose interests may pose potential conflict with the interest of the Bank.
  - 2.1.6.1 Related Parties under the principle of economic interdependence. Entities/Parties whose revenue/purchases, receipts/expenditures derived from SMC and its subsidiaries/affiliates are more than 50% of its total revenue/purchases, receipts/expenditures.
- 2.2 **Related Party Transactions (RPT)** are transactions or dealings with Related Parties of the Bank, including its trust department, regardless of whether or not a price is charged. RPTs include, but are not limited to:
  - 2.2.1 on and off-balance sheet credit exposures and claims and write-offs;
  - 2.2.2 investments and/or subscriptions for debt/equity issuances;
  - 2.2.3 consulting, professional, agency and other service arrangements/contracts;
  - 2.2.4 purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
  - 2.2.5 construction arrangements/contracts;
  - 2.2.6 lease arrangements/contracts;
  - 2.2.7 trading and derivative transactions;

- 2.2.8 borrowings, commitments, fund transfers and guarantees;
- 2.2.9 sale, purchase or supply of any goods or materials; and
- 2.2.10 establishment of joint ventures entities.

RPTs also include outstanding transactions that were entered into with an unrelated party that subsequently becomes a Related Party.

2.3 **Subsidiary** refers to an entity, 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.

2.4 **Affiliate** refers to an entity linked directly or indirectly to another by means of:

- 2.4.1 Ownership, control as defined under Section 131, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;
- 2.4.2 interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under Section 131; or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;
- 2.4.3 common stockholders owning 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 borrowing entity;
- 2.4.4 management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the borrowing entity, or
- 2.4.5 permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa.

2.5 **Control** of an enterprise exists when there is:

- 2.5.1 power over more than ½ of the voting rights by virtue of an agreement with other stockholders;
- 2.5.2 power to govern the financial and operating policies of the enterprise under a statute or an agreement;
- 2.5.3 power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
- 2.5.4 power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- 2.5.5 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.

2.6 **Material Change** is any change, amendment or modification of any term or condition of the approved Related Party Transaction that –



- 2.6.1 will adversely affect the credit quality of the transaction, debt service capability of the Related Party or the collateral position of the Bank;
- 2.6.2 will affect the legality, validity, or enforceability of the transaction or its documents;
- 2.6.3 will pose or increase any financial, operational, reputational or legal risk to the Bank;
- or
- 2.6.4 will affect the arms-length nature of the transaction.

The Credit Policy Manual of the Bank includes guidelines on the proper pricing of credits. This is applied to all loan accounts including those involving related parties and serves as a gauge in determining whether the change in the terms of the RPT is material or not.

In general, a change in the approved terms and conditions of a transaction is deemed material if it can influence the economic decision of the Board.

### **3. Related Party Transactions Committee**

3.1 The **Related Party Transactions Committee** (RPTCom) shall assist the Board of Directors in fulfilling its corporate governance responsibility related to the safety and soundness of the Bank's financial transaction/s with Related Parties and ensures that such are conducted at arm's length bases.

3.2 The RPTCom:

- 3.2.1 is composed of at least five (5) members of the Board of Directors, three (3) of whom are independent directors including the Chairperson; and
- 3.2.2 shall at all times be entirely composed of independent and non-executive directors with independent directors comprising majority of the members.

The Compliance Officer, Chief Audit Executive, Executive Support Group Head and Credit Group Head sit as resource persons in said Committee.

3.3 In vetting proposed RPTs, the RPTCom shall ensure that the following were considered:

- 3.3.1 Transaction and Transacting Parties  
Transaction is conducted in the regular course of business; Nature of transaction and identity of the parties involved in the transaction, ownership structure and their relationship to the Bank;
- 3.3.2 Terms and Conditions  
Whether the terms of the transaction or relationship are no less favorable than terms generally offered/available to an unrelated party for similar transaction under similar circumstances;
- 3.3.3 Purpose and Rationale  
Business purpose, timing, rationale and benefits of the transaction or relationship;

- 3.3.4 Monetary Value  
Appropriate monetary value of the transaction and the approximate money value of the Related Party's interest in the transaction;
- 3.3.5 Valuation Methodology  
Valuation methodology used and alternative approaches to valuation as are applicable to the transaction, i.e. independent appraisal of the property, sealed/public bidding;
- 3.3.6 Potential Counterparties  
Information concerning potential counterparties in the transaction;
- 3.3.7 Provisions or Limitations  
Description of provisions, conditions or limitations imposed as a result of entering into the transaction;
- 3.3.8 Reputational Risk  
Whether the proposed transaction may give rise to any potential reputational risk issues as a result of or in connection therewith;
- 3.3.9 Director's Independence  
Whether the proposed transaction may impact to director's independence;
- 3.3.10 Conflict of Interest  
Extent that such transaction or relationship may present potential improper conflict of interest; or
- 3.3.11 Comparison with non-related party - Price Discovery Mechanism  
Available information that the terms of the RPT are comparable to those generally available to similarly situated non-related parties, the industry benchmark for similar transactions, terms given by other banks to the RP, or the availability of other sources of comparable products and services.

The Committee may consult with third party experts, if needed.

#### **4 General Guidelines**

- 4.1 All Related Party Transactions must be in accordance with guidelines prescribed in Bangko Sentral ng Pilipinas (BSP) Circulars 895 and 914 dated December 14, 2015 and June 23, 2016, respectively.
- 4.2 With respect to loans and other credit accommodations to DOSRI, the regulations as stated in Sections 341 to 342 of the MORB shall be strictly observed. For this purpose, the said provisions of the MORB are hereby made an integral component of this policy.

- 4.3 Each Director or Officer must ensure that the annual biographical data submitted to the BSP/ Human Resource Management and Development Division (HRMDD) of the Bank contain information regarding (i) his interest in any entity that may be considered a Related Party, and (ii) any interest of his close family members (within the second degree of consanguinity and affinity, legitimate or common law) in any entity.
- 4.4 Any director or officer with personal interest in an RPT shall abstain from the discussion, approval and management of such RPT. However, such director or officer must provide to the Board or Committee all material information reasonably requested concerning the transaction.

The director or officer who has an interest in the transaction shall not be physically present or should step-out of the meeting during the evaluation/presentation of the account.

- 4.5 An RPT Committee member who is also a member of the Audit Committee shall abstain from participating in the discussion of control issues or concerns raised that are required by the Audit Committee to be corrected, addressed or investigated. Such director should not be physically present or should step out of the meeting during the discussion.
- 4.6 The Bank must ensure that all Related Party Transactions are entered into on arm's length terms, not more favorable to the Related Party and not inimical to the interests of the Bank or any of its stakeholders.
- 4.7 To ensure that each Related Party Transaction is conducted on arm's length basis, the Bank shall comply with the requirements under its existing policies and procedures on selection of products and services, underwriting of credits, sale and lease of assets, entering into service arrangements, including outsourcing of banking functions and other arrangements.

4.7.1 RPT at arm's length terms

All transactions with related parties shall be done in the regular course of business and undergo the normal/regular transaction approval process. Interest on loans and other credit accommodations and deposit/deposit substitutes shall be consistent with the pricing mechanisms/standard of the Bank as provided by the Asset and Liability Management Committee (ALCO). Other economic terms of RPTs (e.g. price, commissions, fees, tenor, collateral requirement) shall likewise be based on existing policy of the Bank. All approved RPTs with material change in terms and conditions shall be subject to evaluation and endorsement by the RPT Committee to the Board of Directors for approval.

4.7.2 Price Discovery Mechanism

4.7.2.1 The Asset and Liability Management Committee (ALCO) is responsible for all risk asset products pricing policies. On the other hand, implementation/execution of pricing decisions of the ALCO are the responsibility of the Group Heads or equivalent lending officers. Proposals

for pricing changes of previously approved credits should be approved again via a transaction medium in accordance with applicable policy advisory/ bulletins. All requests/proposals for pricing changes should be properly supported by relevant Account Profitability Analysis (APA) figures/ statistics as part of the justification.

While the account's credit risk classification should be a factor considered in pricing credit risk products, consideration on the other collateral business or account relationship should also be made.

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

4.7.2.3 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. Other available sources of comparable products and/or services shall be provided.

4.7.2.4 For credit transactions, available information that the terms of the RPT are comparable to those generally available to similarly situated non-related parties, the industry benchmark for similar transactions, the terms given by other banks to the RP, Account Profitability Analysis (APA) and other compensating business shall form part of the proposal to ensure loan pricing granted to RPs are at arm's length terms.

4.8 The reasonableness of the prices, terms and conditions of a transaction is determined with reference to similar commercial terms for transactions with unrelated parties taking into consideration the demand and supply, quality and delivery of the products and services. Where it is not feasible to obtain comparative quotes and prices, such transactions are to be negotiated in the Bank's best interest and on terms applicable for similar service to a third party.

4.9 A Related Party Transaction entered into without following the requisite process shall not be deemed invalid or unenforceable. However, the transaction should be brought to the attention of the RPTCom as promptly as reasonably practicable after it is entered into or after it becomes reasonably apparent that the transaction is covered by this policy.

4.10 Employees with information regarding Bank transactions which should be treated as Related Party Transactions but were not considered/handled as such, or Related Party Transactions that are not on arm's length basis, or are inconsistent with the Bank's/stakeholders' best

interests, are encouraged to course these concerns pursuant to the Bank's whistleblowing or employee disclosure policy and procedures.

- 4.11 The records of the RPTCom and the minutes of its meetings shall be open for inspection by any director or stockholder of the Bank at reasonable hours on business days. Copy of excerpts of said records or minutes will be reproduced at his expense upon his written request. A Director or Minority Stockholders shall be allowed to communicate directly to the Board of Directors or to any independent unit of the Bank, with protection from reprisal, legitimate concerns about an RPT that may be deemed questionable, abusive or detrimental to the interest of the Bank, its minority shareholders and other stake holders.

In case an officer has been remiss on his duties in handling a Related Party Transaction that resulted in abuse and losses, he will be held accountable and answerable pursuant to the Bank's policies, code of conduct and disciplinary procedure.

- 4.12 The Internal Audit Division shall conduct a periodic review if set guidelines for handling of RPTs are properly implemented. Any discrepancy must be communicated to the Audit Committee for proper disposition, and reported to the RPTCom.
- 4.13 The Bank shall follow its existing policies and procedures for writing-off of accounts tagged as Related Party Transactions.

#### **Vetting and Approval of Related Party Transactions**

- 4.14 Related Party Transactions at or above the materiality threshold set by the Bank must be vetted by the RPTCom and approved by the Board of Directors. RPTs falling below the set threshold shall be vetted and approved by the designated approving authority/ committee below, subject to the confirmation of the Board.
- 4.15 Below are the set limits or materiality thresholds for Related Party Transactions to be vetted by the RPTCom :

<b>BANK PROPER</b>	<b>LOANS</b>			<b>LIMIT</b>
		Fully Secured		PHP50 Million
		Partially Secured / Clean		PHP30 Million
		Contingent   Limits are aligned with the approval limit of Bank's Credit Committee		PHP30 Million
	<b>NON-LOANS</b>	<b>IT Contracts</b>		PHP2 Million
		<b>Lease Contracts</b>		PHP10 Million
		<b>ROPA</b>	Real Estate Property	PHP1 Million
			Vehicle	PHP400,000.00
		Customer Care Services		PHP20 Million
		Stock Transfer Services		Per Engagement of Related Party Stock

		Transfer Agent
	Other Outsourced Services	PHP20 Million
<b>TRUST</b>	Funder *	PHP200 Million
	Fully Secured	PHP50 Million
	Clean/Partially Secured credit transactions and for contingent liabilities	PHP30 Million

- \* Trust and Investments Committee shall vet and approve RPTs covering all Trust Services Group (TSG) products (Unit Investment Trust Funds, Investment Management Accounts, and Trust and Other Fiduciary Accounts) that comply with TSG's policies on account acceptance regardless if the amount involved is at or above the materiality threshold. These RPTs shall still be subject to reporting to the RPT Committee for notation for confirmation by the Board.

Any RPT to be elevated for vetting of the RPT Committee and approval by the Board are those with deviation/s from the Bank's policies and breaches the materiality threshold of Php 200.0 Million.

4.16 The following are the bases of the Related Party Transactions Limits:

Non-Loan Related Transaction	Basis of the Threshold
IT Contracts	Threshold is based on the median of all IT Contracts (system development, system maintenance, maintenance contracts) for the year 2018-2019
Lease Contracts	Threshold is based on the median of Lease Contracts as of July 2019
ROPA Real Estate	Threshold is based on the median of ROPA Sales Report as of December 2019
ROPA Vehicle	
Customer Care	Based on existing provider for Customer Care.
Stock Transfer Services	Currently we only have one Stock Transfer Agent.
Other Outsourced Services (Messengerial, janitorial, security, courier, cash sorter, deposit pick-up/cash delivery etc.)	Threshold is based on the average amount per contract per year of the outsourced activities of the Bank.

4.17 Interest rates given to Related Parties upon actual drawdown below the initially approved interest rates shall be reported to RPTCom for notation. Provided that rate given is not lower than the initially vetted approved rate.

- ✓ An indicative rate as a floor rate shall be established so that during drawdown, when the rate to be granted is lower than the floor rate, the transaction must be presented again to the RPT Committee for vetting.
- ✓ When the final rate is equal to the floor rate, the transaction can proceed.

- 4.18 Below are the corresponding committees that will endorse to the RPTCom for vetting those RPTs at or above the materiality thresholds (Please see systems flow in **Exhibit A**):

TRANSACTION	PROPONENT UNIT	ENDORISING / APPROVING COMMITTEES
Credit Accommodation	Lending Units	Credit Committee (CRECOM) Executive Committee(EXCOM)
Purchase/ Sale/ Transfer/ Lease of Assets ( <i>including extensions of lease</i> )	Asset Management & Recovery Division	Executive Committee(EXCOM)
Transfer of Technology	Information Technology Services Division (ITSD)	IT Steering Committee
Trust Services Group Transactions	Trust Services Group	Trust and Investment Committee
Treasury Group Transactions	Treasury Group	Assets and Liabilities Committee
Provision & Receipt of Services	HO Unit	Senior Executive Team (SET)

- 4.19 The same committees above shall vet and approve RPTs that fall below the materiality thresholds (Please see systems flow in **Exhibit B**).
- 4.20 Real estate and chattel transactions and loans, other credit accommodation and guarantees with DOSRI required under the MORB to be approved by the Board regardless of amount shall first be vetted by the RPTCom. Other transactions with Related Parties required under the MORB to be approved by the Board shall likewise be vetted first by the RPTCom.
- 4.21 Exclusion from RPTCom or Credit Committee vetting:
- 4.21.1 Consumer Group loan transactions where the terms, conditions and eligibility criteria were already vetted by the RPT Com and approved by the Board. Provided, that, if the borrower is a related party as defined in the RPT Policy, the loan transaction shall be vetted and approved based on existing loan/credit approving authority limits.
- 4.21.2 Auto Loan transactions wherein the dealer of the vehicle is a related party, considering that the terms and conditions of the credit are between the Bank and the borrower, and not the dealer. Provided, that the loan transaction shall be vetted and approved based on existing loan/credit approving authority limits.

4.22 The transaction proponent is responsible for determining and indicating in the approval media whether the Bank's counterparty is deemed to be a Related Party as defined by this policy. The details to be reported are the following:

- 4.22.1 nature of the transaction;
- 4.22.2 reasons to enter into the transaction;
- 4.22.3 identity of the counterparty in relation to the Bank's definition of Related Party;
- 4.22.4 the amount involved in the transaction and the approximate value of the Related Party's interest in the transaction;
- 4.22.5 line and/or transaction limit granted to the Related Party;
- 4.22.6 individual and aggregate internal limits relevant to the RPT;
- 4.22.7 the terms of the transaction which includes a comparison with similarly situated non-related parties, industry benchmark, terms given by other banks, among others; and
- 4.22.8 any other information that would be material to the discussion of the transaction such as collateral, compensating business or Account Profitability Analysis (APA).

If the RPT is at or above the materiality threshold, it shall be submitted to the RPTCom Secretariat for vetting of the RPTCom.

4.23 Relative to above provision, below are the internal limits granted to a Related Party:

<b>Aggregate Limit to all Related Parties</b>		300% of the Bank's Capital
<b>Individual Internal Limit</b>		Single Borrower's Limit (SBL)
<b>Aggregate Internal Limit</b>	Affiliate	To follow set ceilings in Section 342 of the Manual of Regulations for Banks (MORB)
	Non-Affiliate	Single Borrower's Limit

\* *This limit considers the aggregate average deposits of BOC affiliates as well as aggregate exposure to said affiliates.*

4.23.1 Related Parties with aggregate exposure limit of 300% of Bank's capital are as follows:

- i. Subsidiaries
- ii. Affiliates
- iii. DOSRI
  - *Includes spouse and relatives within 1st degree of consanguinity, affinity or legal adoption of DOS.*
- iv. Close Family Members of DOS
  - *Persons related to Bank's Directors, Officers and Stockholders within the 2nd degree of consanguinity, affinity, legitimate or common-law and legally adopted children.*
  - *Close family members of the Bank's Officers with rank of Assistant Manager (AM) and up*



v. Corresponding Persons in Affiliated Companies

- *Directors, Officers appearing in the GIS, officers with rank of VP and up for Treasury and Finance with significant influence/control, Stockholders and their close family members.*

4.23.2 The following RPT transactions are not included in the aggregate RPT Limit. However, these transactions should still be vetted by the RPT Committee.

- i. Directional Investment Management Accounts (DIMA) where the borrower/issuer/funder is a related party;
- ii. Entities/Parties whose revenue/purchase, receipts/expenditures derived from SMC and its subsidiaries/affiliates are more than 50%; and
- iii. Standby Letter of Credit, Bank Guarantees issued in favor of Related Parties

4.24 Transactions entered into with an unrelated party that eventually becomes a Related Party must be reported by the transaction proponent to:

4.24.1 the designated approving or endorsing authority; and

4.24.2 the Compliance Division for proper updating of database and for reporting to RPTCom.

4.25 Renewal, extension, re-establishment of an approved RPT and/or Material Change in the terms and conditions of a Related Party Transaction shall also pass through vetting and approval process stated in this Policy. Extension of approval (or of the documentation period) without changes on the approved terms and conditions of the transaction, does not have to be vetted by the RPTCom or the designated approving authority.

4.26 Treasury Marketing and Sales Division (TMSD) shall submit to Compliance Division a monthly report of FX Transactions with Related Parties for notation of RPT Committee.

### **Excluded Transactions**

4.27 The following transactions with Related Parties are excluded from the materiality thresholds and do not require vetting, approval and reporting but should follow the policy on RPT in terms of ensuring that these are done in an arm's length basis and proper approval is observed.

4.27.1 All transactions concerning deposit operations are excluded for practical reasons considering their volume and frequency and the nature of the transaction which is critical in managing the funding requirement of the RP;

4.27.2 regular trade transactions involving purchases and sales of debt securities traded in an active market by Trust and Treasury are excluded for practical reasons considering their volume and frequency and their pricing is dictated by the market;

4.27.3 transactions pursuant to BSP-approved fringe benefit programs are excluded since these are allowable financial assistance to officers/employees with very specific purpose, of limited maximum amount and low credit risk;

- 4.27.4 credit card lines falling below the materiality threshold are excluded for practical reasons considering their volume and frequency;
- 4.27.5 TSG transactions involving purchases of securities of issuers which were previously vetted by RPTCom (i.e. initial public offering, initial bond offering)

For control purposes, the above transactions may form part of the audit procedure/independent testing to be performed by Internal Audit Division/Compliance Division. Although the foregoing transactions have relatively low risk of conflict of interest and demonstrate little chance of influence from the Related Party, these transactions should still be validated to reasonably assure that such were indeed entered into at arm's length.

Deviations not properly justified in the foregoing transactions, if any, shall be communicated directly to the Audit Committee/Corporate Governance Committee and to be reported to the RPT Committee, as the case may be.

## **Reports**

- 4.28 The Bank shall comply with the disclosure and regulatory reporting requirements as prescribed by the BSP or pursuant to Section 136 of the MORB. Prior to submission of the reports to BSP, these must be presented to the RPTCom for notation.
- 4.29 Compliance Division shall be responsible for the monitoring, preparation and submission of the monthly RPT report to the RPTCom, which shall also be presented to the Board of Directors for notation.
- 4.30 For purposes of the quarterly report on material exposures to related parties due within 20 calendar days from end of the reference quarter, **each concerned unit shall prepare a monthly report of all RPTs approved from the previous month** (following the template on **Exhibit C**) and forward it via email to Compliance Division – Compliance Management and Monitoring Department (CD-CMMD | [Compliance\\_Management@bankcom.com.ph](mailto:Compliance_Management@bankcom.com.ph)) on or before the 5<sup>th</sup> day of the month for inclusion in the quarterly report on material exposures. The reports received shall be reviewed, evaluated and consolidated by the latter prior to quarterly submission to the BSP. The quarterly report on material exposures shall be presented to the RPTCom for notation and endorsement to the Board, and to the Board for notation.
- 4.31 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.
- 4.32 In addition to the above provision, Central Liability and Custodianship Department (CLCD), Branch Banking Group (BBG), International Operations Support Division (IOSD), Trust Services Group (TSG), shall also prepare a report on Month-End Exposures to Related Parties to CD-CMMD following the schedule of the monthly RPT report.

- 4.33 Treasury Marketing and Sales Division (TMSD) shall submit to Compliance Division a monthly report of FX Transactions with Related Parties for notation of RPT Committee, which shall include the rates given and comparative rates.

The Chief Compliance Officer shall present to the RPT Committee TMSD's report on FX transactions with Related Parties for notation of RPT Committee and confirmation of the Board.

- 4.34 Monthly reporting of interest rates given on availments against approved credit lines previously vetted by RPT Committee.

✓ On a monthly basis Lending Units (CBG, CLG, IOD) shall submit to Compliance Division the following report:

1. Report on interest rates on availments of RP borrowers with previously vetted/approved credit facility.
2. Monitoring of Account Profitability Analysis (APA) per group of RP borrowers at least quarterly.
3. Appropriate information/justification shall be provided to the RPT Committee on the pricings charged to the RPs (i.e., account profitability analysis).

✓ The Chief Compliance Officer shall present to the RPT Committee for notation, Lending Units report on interest rates given to RPs on availments against previously vetted/approved credit facility.

- 4.35 For purposes of complying with the regulatory reports, the Bank's database of Related Parties, under the custodianship of Compliance Division, must be reviewed and/or updated as needed or at least twice a year.

For the internal database which include Bank's Directors, Officers, Stockholders and Related Interests, it must be reviewed as needed and/or updated at least quarterly. The updating of the Bank's database for Directors, Officers, Stockholder and Related Interest will be handled by Compliance Division in coordination with Human Resource Management and Development Division (HRMDD).

HRMDD shall provide a monthly report to Compliance Division on newly hired, resigned/separated Bank Officers and those Officers with change of status.

In addition to the regular KYC procedures performed on clients prior to processing a transaction, the concerned business unit shall verify if the client is a related party using the submitted identification documents and the database of Related Parties.

The database of Related Parties shall be made available in the Bank's E-Docs System. (Please see RPT Database in **Exhibit D**)

- 4.36 The updated report on conglomerate structure must be submitted by Compliance Division to BSP within thirty (30) calendar days after the end of each year.

4.37 All RPTs falling within or above the materiality thresholds shall be submitted for confirmation by majority vote of the stockholders in the annual stockholders' meeting.

## Related Party Transactions (RPT)

### At or above Materiality Threshold.

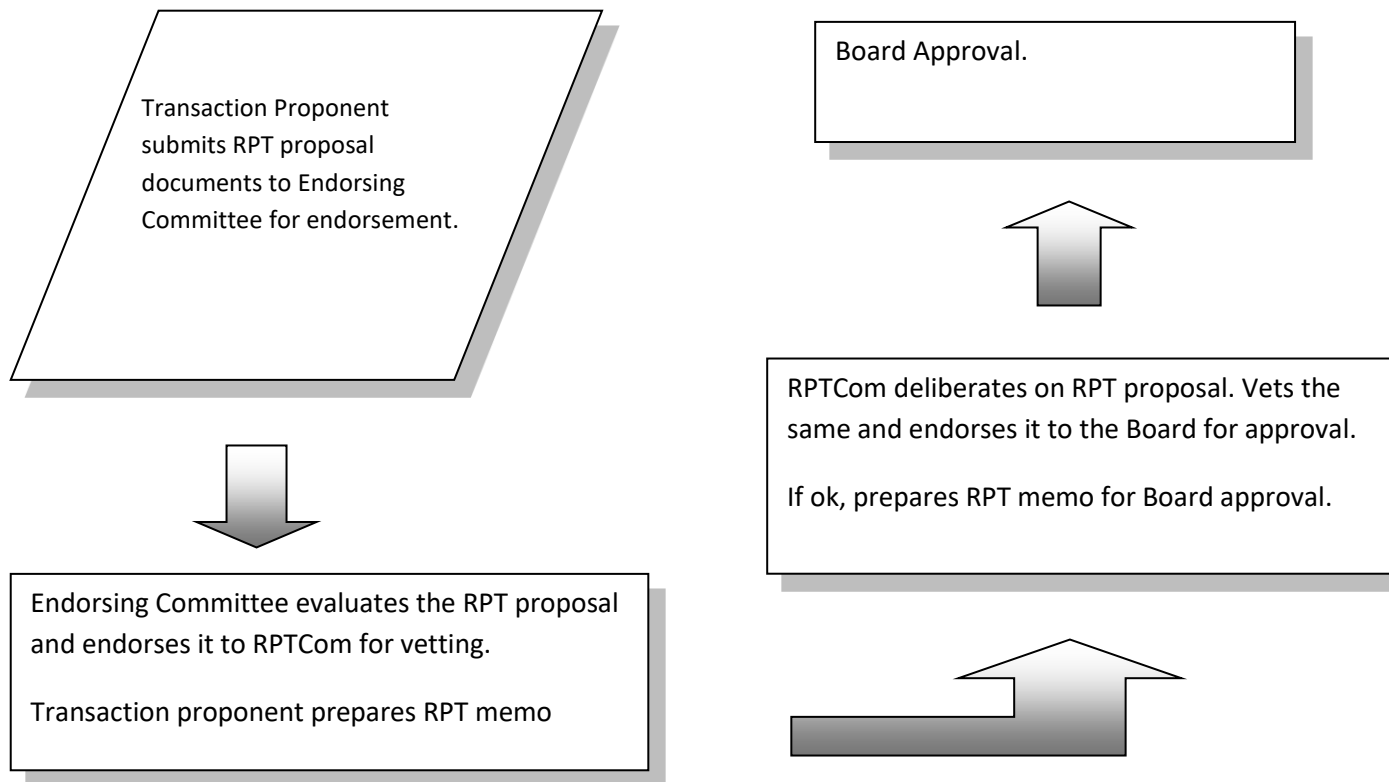
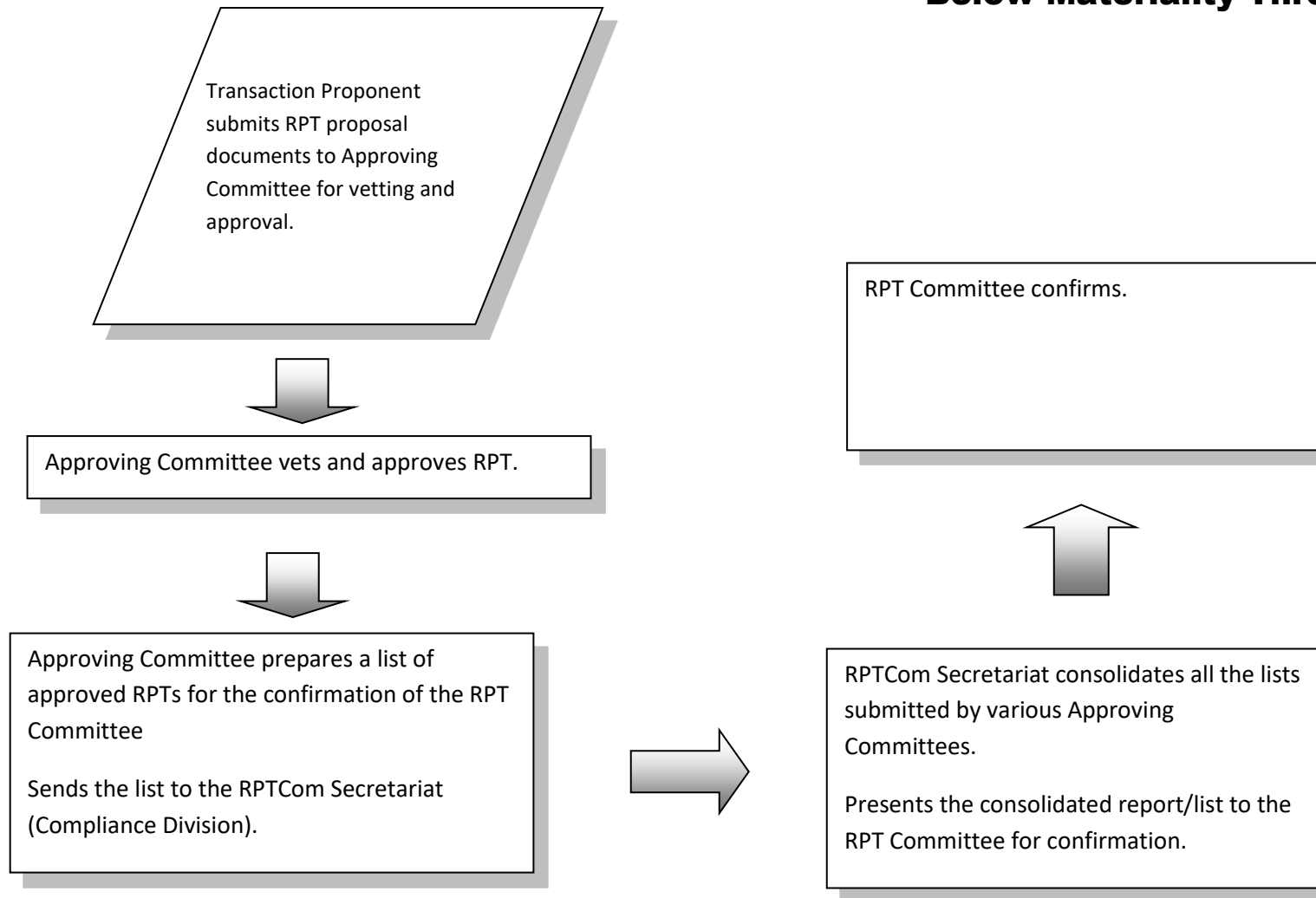


Exhibit B

**Related Party Transactions (RPT)  
Below Materiality Threshold**



# Exhibit C



**Report on Related Party Transactions (Material & Non-Material)**  
**For The Month of \_\_\_\_\_ 2016**

[illegible]

1-These shall include 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, establishment of joint venture entities.



Outstanding Loan Exposures to Related Parties  
For the Month of \_\_\_\_\_ 2016

Name of Unit: Central Liability and Custodianship Department		Date:		
Name of Related Party	Facilities/Line Granted	Amount of Facilities/Line Approved	Outstanding Loan as of Previous Month	Outstanding Loan as of Current Month
<u>Loans Granted to Corporate Accounts:</u>				
<u>Exposures to DOSRI:</u>				
Name of Related Party	Facilities/Line Granted	Amount of Facilities/Line Approved	Outstanding Loan as of Previous Month	Outstanding Loan as of Current Month
<u>Salary Loan Facility Granted to the Employees of San Miguel Corporation and its subsidiaries and affiliates:</u>				
Name of Related Party	Facilities/Line Granted	Amount of Facilities/Line Approved	Outstanding Loan as of Previous Month	Outstanding Loan as of Current Month
Prepared By:	Reviewed By:		Noted by:	







Outstanding Exposures to Related Parties  
For the Month of \_\_\_\_\_ 2016

<b>Name of Unit: International Operations Support Division</b>		Date:			
<b>Bank Guarantees Issued in favor of Related Parties:</b>					
Name of Account	Beneficiary	Number of Guarantees Issued	Outstanding Exposure as of Previous Month	Number of Guarantees Issued	Outstanding Exposure as of Current Month
<b>Letters of Credit for the Account of Related Parties:</b>					
Name of Account	Number of Letters of Credit Issued	Outstanding Exposure as of Previous Month	Number of Letters of Credit Issued	Outstanding Exposure as of Current Month	
<b>Prepared By:</b>		<b>Reviewed By:</b>		<b>Noted by:</b>	



**Outstanding Exposures to Related Parties**  
For the Month of \_\_\_\_\_ 2016

<b>Name of Unit: Trust Services Division</b>		<b>Date:</b>		
<b>Name of Related Party</b>	<b>Facilities/Line Granted</b>	<b>Amount of Facilities/Line Granted</b>	<b>Outstanding Exposures in Equities for Trusteed Accounts as of Previous Month</b>	<b>Outstanding Exposures in Equities for Trusteed Accounts as of Current Month</b>
<b>Prepared By:</b>	<b>Reviewed By:</b>	<b>Noted by:</b>		



**List of Vetted and Approved Related Party Transactions  
For The Month of \_\_\_\_\_ 2016**

APPROVING COMMITTEE:				Date of Report:		
Name of Related Party	Relationship to the Bank	Type of RPT Transaction <sup>1</sup>	New / Renewal	Amount (Facility/Line Granted, Contract, Investment)	Date Approved	Term of the Facility/Line/Contract/ Investment
Prepared By:		Reviewed By:		Noted By:		

<sup>1</sup> These shall include 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, establishment of joint venture entities.



Report on Interest Rates given on availments against approved credit lines previously vetted by RPTCom  
For the Month of \_\_\_\_\_

[illegible]



**Report on Sale of FX with Related Parties**  
For the Month of \_\_\_\_\_

[illegible]

Note: Please provide at least 3 comparables

(date)

NAME OF CLIENT	
RELATIONSHIP WITH THE BANK	
PROPOSED TRANSACTION	
AMOUNT	
PURPOSE	
SECURITY	

Background and History of Relationship:

Discussion on Account Profitability Analysis

Compensating business generated from the account.

Terms of Facility	Proposed (Including Justification)	Bank’s Benchmark	Industry Practice

Comparable Transactions With Non-Related Parties (Indicate at least 3 non-RP accounts)

Account Name	Type of Facility	Terms and Conditions	Pricing	Remarks
1.				
2.				
3.				

Existing Facilities with the Bank:

Facility	Limit	Outstanding Balance	Proposed Limit
TOTAL			

Credit Risk Rating	
--------------------	--

Bank’s Endorsing Authority:

☐ Group Head

☐ SET

☐ President

☐ Credit Committee

☐ Bids and Awards Committee

☐ Executive Committee

Prepared By:

Account Officer

Division Head

Group Head

Action of the RPT Committee:

☐ Endorsed for Approval

☐ Not Endorsed/For notation of the Board