

## **REVISED RELATED PARTY TRANSACTIONS POLICY**

### **A. OBJECTIVES**

In compliance with BSP Circular 895, the Related Party Transactions policy applies to BDO Leasing and Finance, Inc. (the Company), its subsidiaries and affiliates, as applicable and intended to:

- ensure that every Related Party Transaction is conducted in a manner that will protect the Company from conflict of interest which may arise between the Company and its Related Parties; and
- ensure proper review, approval, ratification and disclosure of transactions between the Company and any of its Related Party/ies as required in compliance with legal and regulatory requirements.

### **B. RELATED PARTIES**

For purposes of this policy, a Related Party means-

#### **1. DOSRI**

- a) *Directors* shall refer to the Company directors as defined in Subsec. X141.1.<sup>1</sup>
- b) *Officers* shall refer to Company officers as defined in Subsec. X142.1.<sup>2</sup>
- c) *Stockholder* shall refer to any stockholder of record in the books of the Company, 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 financing company, 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 firm, amount to one percent (1%) or more of the total subscribed capital stock of the Company. (As amended under Circular 464 dated 1/4/05)

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<sup>1</sup> *Directors* shall include: (1) directors who are named as such in the Articles of Incorporation; (2) directors duly elected in subsequent meetings of the stockholders; and (3) those elected to fill vacancies in the Board of Directors.

<sup>2</sup> *Officers* shall include the President, Executive Vice President, Senior 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, or 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 or another position in the board shall not be considered as an officer unless the duties of his position in the board 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. (As amended by Circular No. 562 dated 13 March 2007)

- d) *Related interest* shall refer to any of the following:
- (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 Company;
  - (2) Partnership of which a director, officer, or stockholder of a Company 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 a director or officer of the Company, or his/her spouse is also a director or officer of such corporation, association or firm, except (a) where the securities of such corporation, association or firm are listed and traded in the big board or commercial and industrial board of domestic stock exchanges and less than fifty percent (50%) of the voting stock thereof is owned by any one (1) person or by persons related to each other within the first degree of consanguinity or affinity; or (b) where the director, officer or stockholder of the Company sits as a representative of the Company in the board of directors of such corporation: *Provided*, That the Company representative shall not have any equity interest in the borrower corporation except for the minimum shares required by law, rules and regulations, or by the by-laws of the corporation, or where the corporation is at least ninety-nine percent (99%) owned by a non-stock corporation as defined in Section 87 of the Corporation Code of the Philippines: *Provided*, That the purpose of the loan is to finance hospitals and other medical services: *Provided, further*, That the loan is fully secured: *Provided, furthermore*, That in the case of Items (a), (b) and (c) above, the borrowing corporation is not among those mentioned in items *e(5)*, *e(6)*, *e(7)* and *e(8)* of this Section;
  - (5) Corporation, association or firm of which any or a group of directors, officers, stockholders of the Company 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;
  - (6) 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)*, *e(4)* and *e(5)* of this Section;
  - (7) 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 Company or which controls majority interest of the Company pursuant to Subsec. X303.1;
  - (8) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the Company; and

- (9) 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 or related companies.

## **2. SUBSIDIARIES AND AFFILIATES**

Corporation, association or firm in which the Company and/or its parent/subsidiary holds or owns at least twenty percent (20%) of the subscribed capital of such corporation, or in the equity of such association or firm.

## **3. OTHER RELATED PARTIES**

- a. Any party (including their subsidiaries, affiliates and special purpose entities) that the Company exerts direct/indirect control over;
- b. Any party that exerts direct/indirect control over the Company;
- c. Second degree relatives by consanguinity (grandparents, grandchildren, brothers and sisters) or affinity (grandparents-in-law, brothers-in-law and sisters-in-law), legitimate or common-law, of Directors, Senior Officers with a rank of SVP or higher of the Company who has the ability to control or to exercise significant influence in the outcome over the defined Related Party Transactions such as Senior Officers with discretion and can influence decisions solely;
- d. Directors, Officers and Stockholders of the affiliated companies; and
- e. Second-degree relatives by consanguinity (grandparents, grandchildren, brothers and sisters) or affinity (grandparents-in-law, brothers-in-law and sisters-in-law), legitimate or common-law, of Directors, Senior Officers in affiliated companies.

The persons and entities in each Related Party Group shall be determined in advance and a central inventory of all related parties of the Company shall be set up, maintained and updated from time to time to reflect subsequent changes in relationships such as a non-related party becoming a related party, promotions, resignations or retirements of company officers.

## **C. RELATED PARTY TRANSACTIONS**

### **1. Types of transactions to be covered:**

#### **a. Credit Transactions**

- (1) On-and-off balance sheet lease/loan availments and claims and write-offs; and
- (2) Borrowings.

#### **b. Services**

- (1) Consulting, professional, agency and other service arrangements/contracts; and
- (2) Construction arrangements/contracts;

#### **c. Goods and Materials**

- (1) Purchases, sales or supply of any goods or materials

#### **d. Leases**

- (1) Lease arrangements/contracts

#### **e. Assets**

- (1) Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements)

**f. Investments**

- (1) Investments and/or subscriptions for debt/equity issuances not traded in the active market; and
- (2) Establishment of joint venture entities

**D. MATERIALITY THRESHOLDS AND EXPOSURE LIMITS**

The following amounts are considered material exposures for each type of related party transaction, for each related party group, and for all related party groups:

Type of RPT	Total Credit Facility/ Transaction Minimum Threshold Amount	Maximum Limit Per Related Party Group			Maximum Aggregate Exposure for All Related Parties
		DOSRI	Subsidiaries / Affiliates	Other Related Party	
<i>All amount in Philippine Pesos</i>					
Loan/Lease availments, Investments & Joint Ventures	10M <sup>3</sup>	Maximum of 15% of BDOLF's Qualifying Capital	Maximum of 15% of BDOLF's Qualifying Capital	Maximum of 4x BDOLF's Qualifying Capital less the set limit for DOSRI and Subsidiaries /Affiliates	Maximum of 4x of the Qualifying Capital
Write-off of Related Party Transaction	1M <sup>4</sup>				
Services	1M	20M	20M	20M	60M
Goods and Materials	1M	20M	20M	20M	60M
Leases	1M	20M	20M	20M	60M
Assets	1M	20M	20M	20M	60M

**E. TERMS OF RELATED PARTY TRANSACTIONS**

To ensure that related party transactions are conducted at arm's length basis and in the ordinary course of business, the terms and conditions of the transaction should not be more favorable than similar transactions with non-related parties. The terms and conditions shall include those relating to term, interest rates, fees, collaterals, contract/selling price and other relevant information that will allow a clear determination that no preferential treatment was given to a related party.

The price discovery mechanisms used and the results obtained should also be disclosed in the proposal.

<sup>3</sup> 2% of 2015 Net Income

<sup>4</sup> 10% of the RPT threshold

## **F. REVIEW OF RELATED PARTY TRANSACTIONS**

The Related Party Transactions Committee is vested with the authority to review any credit and non-credit transaction with a related party that is within the specified materiality threshold prior to the approval of the Board. To fulfill its mandate, the Committee shall conduct a comprehensive review of the transactions focusing on the terms and conditions, the business purpose, the justifications in entering into these transactions and compliance with the rules and regulations on Related Party Transactions. In determining whether to ratify or not a Related Party Transaction, the Committee shall consider the following factors, among others, to the extent relevant to the proposed Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Company;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Whether the Related Party Transactions would present an improper conflict of interest for any director or senior officers of the Company, taking into account the size of the transaction and the significant influence of the senior officer in the outcome of the transaction;
- The availability of other sources of comparable products or services;
- The material facts of the proposed RPT, including the proposed aggregate value of such transaction; and
- Any other information (e.g., price discovery system, etc.) the Committee deems relevant to allow determination if terms are comparable to those given to unrelated parties or reasonable under the circumstances.

After considering all these factors, the Committee shall decide if the transaction is in the ordinary course of business and meets the arm's length requirements. It shall then endorse this transaction to the Board for approval.

Any member of the Committee who has a potential interest in any Related Party Transaction shall abstain from the discussion and endorsement of the Related Party Transaction.

## **G. APPROVAL OF RELATED PARTY TRANSACTIONS**

The Board of Directors is the final approving authority for all Related Party Transactions. The following requires prior approval of the Board :

1. all material credit and non-credit related party transactions endorsed by the Related Party Transactions Committee;
2. any renewal or material changes in the terms and conditions of related party transactions;
3. all DOSRI transactions regardless of amount as required under existing rules;
4. all related party transactions approved by the Excom and other authorized management committees that are below the material threshold;
5. all write-offs of material exposures to related parties;
6. breaches in internal limits for individual and aggregate exposures to related parties; and
7. governing policy on related party transactions and all subsequent changes thereto.

All related party transactions that fall below the materiality threshold shall only require confirmation by the Board.

Any member of the Board who has an interest in the transaction must abstain from the deliberation and approval of any related party transaction.

#### **H. INDEPENDENT OVERSIGHT**

To ensure compliance with internal policy and regulatory requirements, Internal Audit and the Compliance Office must perform an independent review on the effectiveness of the systems and controls, and compliance with relevant rules and regulations governing related party transactions. They should directly report their findings to the Board Audit Committee.

#### **I. REPORTING OF RELATED PARTY TRANSACTIONS**

A monthly report shall be submitted to the Board through the Related Party Transactions Committee for the individual and aggregate exposures to each related party including the status thereof.

In addition to the required reports on DOSRI and transactions with subsidiaries & affiliates under existing regulations, BDOLF shall submit the following reports to Parent Bank:

<b>Report Name</b>	<b>Schedule of Reporting</b>
Report on Material Related Party Transactions (Annex A)	20 calendar days after the reference quarter

#### **J. WHISTLE BLOWING MECHANISMS, RESTITUTION OF LOSSES AND REMEDIES FOR ABUSIVE RPTs**

Reporting & investigation of abusive RPTs shall be handled following the Company's existing code of conduct and Whistleblowing Guidelines, while restitution of losses and remedies for abusive RPTs shall be handled following the Bank's Cases Review Guidelines.

#### **K. DISCLOSURE OF RELATED PARTY TRANSACTIONS**

The salient points of the policy will be published in the Company's website at <https://www.bdo.com.ph/leasing/home>.

The material Related Party Transactions including write-off of material exposures to related parties shall be submitted for confirmation by majority vote of the stockholders in the Annual Stockholders' Meeting. This information will also be published in the Company's Annual Report.

#### **L. POLICY REVIEW AND IMPLEMENTATION**

This policy shall be reviewed by the Compliance Office as and when any changes are to be incorporated in the policy due to changes in regulation and/or amendments to existing laws. It shall ensure also the proper implementation of the policy across the Company's subsidiaries and affiliates.

#### **M. EFFECTIVITY OF THE POLICY**

This policy shall supersede the Revised Related Party Transactions Policy approved by the Board of Directors on January 13, 2016 and shall take effect on July 1, 2016.