

**RPT POLICY  
UNION BANK OF THE  
PHILIPPINES**

# PREAMBLE

## GENERAL STATEMENT OF POLICY

1. As a policy, dealings with ***DOSRI, Subsidiaries, Affiliates and Other Related Parties***, shall be conducted on an ***“arm’s length basis”***. These transactions:
  - Shall only be entered into and made substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks
  - Shall follow the same process applicable to ordinary or unrelated party transactions
  - Shall be conducted in the regular course of business and upon terms not less favorable to the Bank than those offered to other customers.
2. All Loans and Other Credit Accommodations to **DOSRI accounts** shall be subject to the prudential policies, guidelines and limits set forth under **Sections X326-X340** of the Manual of Regulations for Banks (MORB). DOSRI transactions as defined in the MORB, regardless of amount, must have the prior approval of the Board of Directors after full disclosure of any financial interest.
3. Beyond the definition of DOSRI accounts, other **Related Party Transactions** as defined by the Bank herein shall be reviewed and approved by the Related Party Transaction (RPT) Committee or the Board of Directors in accordance with internal policy, and shall be subject to regular monitoring thereafter.

## REGULATORY GUIDANCE

Bank Officers and Staff shall comply with the regulations as articulated in the following Circulars:

1. BSP Circular 423 - DOSRI Guidelines
2. BSP Circular 560 - Subsidiaries and Affiliates
3. BSP Circular 749 - Other Related Party Transactions (Persons or Juridical Entities beyond the definition of DOSRI, Subsidiaries and Affiliates), and subsequent circulars and memorandums that may be issued from time to time.
4. BSP Memorandum No. M-2012-032 dated July 5, 2012 (Frequently asked questions on BSP Circular 749).
5. BSP Circular Letter No. CL-2010-013 dated February 24, 2010 which outlines the Code of Ethics governing Financial Market Activities in the Philippines (compiled by the Money Market Association of the Philippines or MART).
6. BSP Circular 895 – Guidelines on Related Party Transactions
7. Other issuances of the BSP, as applicable

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## INTRODUCTION

In the conduct of related party transactions, Banks should have guidelines to ensure fairness and transparency. It should ensure the appropriate handling and monitoring of Related Party Transactions which cover a wider definition than DOSRI and encompass a broader spectrum of transactions (i.e. not limited to credit exposures). Banks are expected to identify relevant transactions that could pose a conflict of interest, material risk or potential abuse to the Bank and its stakeholders. The following guidelines are therefore being established.

**A. DEFINITION OF A RELATED PARTY** – For the purpose of this Policy, a Related Party refers to the following, as defined in the regulations:

1. The Bank's **Subsidiaries** as well as **Affiliates** and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct/indirect control over or that exerts direct/indirect control over the Bank;
2. The Bank's **Directors, Officers, Stockholders and Related Interests (DOSRI), and their Close Family Members**, as well as corresponding persons in affiliated companies.
3. Any person/juridical entity whose interests may pose potential conflict with the interest of the Bank.
4. Related Parties – as Amended by BSP (entities previously treated as Affiliates):
  - a. Ownership, control as defined under Subsection X146.1, 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;
  - b. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
  - c. Common stockholders owning ten percent (10%) or more of the outstanding voting stock of the bank and ten percent (10%) to less than twenty percent (20%) of the borrowing entity; and
  - d. 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 entity, or vice versa.

## DEFINITION OF TERMS

**A Subsidiary of the Bank** is defined as a corporation or firm more than 50% of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by the Bank.

**An Affiliate of the Bank** is defined as an entity linked directly or indirectly to the Bank:

- a. Ownership, control or power to vote of **at least 20%** of the outstanding voting stock of the borrowing entity or vice-versa;
- b. Interlocking directorship or officership where the director or officer owns, controls or has the power to vote of at least 20% of the outstanding voting stock of the borrowing entity or vice-versa;
- c. Common stockholders owning 10% or more of the voting stock of the Bank and at least 20% of the borrowing entity;
- d. Management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity and
- e. Permanent proxy or voting trusts in favor of the Bank constituting at least 20% of voting stock of the borrowing entity, or vice versa.

**Close Family Members** of the Bank's Directors, Officers, Stockholders and Related Interests are defined as relatives within the **Second Degree** of consanguinity or affinity, legitimate or common law. Second degree relatives refer to Brothers, Sisters, and Grandparents including In-laws. For the purpose of this policy, Officers pertain to **Senior Vice President and up**.

**Corresponding Persons in Affiliated Companies** are the Directors, Officers and Stockholders of the affiliated companies and their close family members.

**Definition of Control** - As defined in the regulations, control exists when there is:

- a. Power over **more than one-half of the voting rights** by virtue of an agreement with other stockholders; or
- b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- e. Any other arrangement similar to any of the above.

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

1. Shares owned or held are exclusively for investment purposes;
2. The Bank's 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's stockholder will have only limited contacts with bank management that are customary for interested shareholders;
4. The Bank's 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.

**B. DEFINITION OF DOSRI** – Under the existing regulations, DOSRI is defined as follows:

**I. Directors**

**II. Officers**

**III. Stockholders (Owning 1% of the Bank's Capital)**

**IV. Related Interests (As amended)**

1. Spouse or Relative within **the first degree** of a Director, Officer or Stockholder (DOS).
2. Partnership of which a DOS or his spouse or first degree relative is a general partner.
3. Co-owner with the DOS or his spouse or first degree relative, of the property mortgaged to secure the loan.
4. Corporation of which any or a group of DOS and /or their spouses or first degree relatives hold or own at least **20% of such corporation**.
5. Corporation wholly or majority-owned or controlled by any related entity or group of related entities mentioned in Items IV (2) and IV (4) of this section.
6. Corporation which owns or controls directly or indirectly, whether singly or as part of a group of related interest, at least 20% of the capital of a Substantial Stockholder or which controls majority interest of the bank. (A Substantial Stockholder is one that owns more than 10% of the Bank's capital or can elect one board member).
7. Corporation which has an existing management contract or any similar arrangement with the parent of the Lending Bank. (Management Contract refers to a 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).
8. NGO's / Foundations that are engaged in retail micro finance operations which are incorporated by any of the stockholders and/or directors and/or officers of related banks.

**C. DEFINITION OF RELATED PARTY TRANSACTIONS** – As defined in the regulations, 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**. For the purpose of this policy, the Bank is setting a threshold of more than **P10 Million in a given year**. The Covered and Not Covered transactions are as follows:

**COVERED**

Per BSP Circular 895, covered transactions shall include, but not limited to the following (except for No. 11 which the Bank is including herewith):

1. On- and off-balance sheet credit exposures and claims and write-offs
2. Investments and/or subscriptions for debt/equity issuances (*except for fully-owned subsidiaries of the Bank*)
3. Consulting, professional, agency and other service arrangements/contracts
4. Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks, outsourcing and license agreements)

5. Construction arrangements/contracts
6. Lease arrangements/contracts
7. Trading and derivative transactions
8. Borrowings, commitments, guarantees and fund transfers *(such as advances to and from the Bank's related parties)*
9. Sale, purchase or supply of any goods or materials
10. Establishment of joint venture entities
11. *Donations*

**NOT COVERED**

1. Minor Transactions defined as **amounts not exceeding P10 Million** in a given year. These shall not require review and approval of the RPT committee, but **shall be subject to internal monitoring.**
2. Transactions concerning deposit operations (CASA /Time Deposits) and other bank services (such as over the counter FX transactions) **where standard fees or published market rates apply.**
3. Credit Card availments (except those falling within the definition of material transactions).
4. Purchases and sales of debt securities traded in an active market
5. Transactions where the Bank acts as a Transfer Agent
6. Executive Officer/Director compensation arrangements and Employee Benefits
7. Other transactions of similar nature

**D. APPROVING AUTHORITY**

Related Party Transactions for this purpose shall be subject to the following materiality thresholds and approving authority levels:

| Definition              | Amount                              | Approving Authority   |
|-------------------------|-------------------------------------|---|
| Significant Transaction | Over P10 Million up to P100 Million | A. No deviations or exceptions – for reporting to the RPT Committee<br>B. With deviations or exceptions – for approval of the RPT Committee and confirmation by the Board |
| Material Transaction    | Over P100 Million                   | A. No deviations or exceptions – for reporting to the Board<br>B. With deviations or exceptions – for approval of the Board   |

**CONDITIONS**

1. The limits are applicable to new transactions.
2. Significant Transactions that are non-standard or with deviations from the standard price or those with significant loss shall require prior approval of the RPT Committee. Material transactions that are non-standard require prior approval of the Board.

3. In general, a deviation beyond 10% of the normal price range is considered an exception. Where there is doubt or lack of clarity in determining whether an RPT is with deviation or not, the responsible person shall elevate the transaction to the RPT Committee.

**GENERAL GUIDELINES**

1. Minor RPT transactions – defined as those not exceeding P10 Million in a given year shall not be required to be reported to the RPT Committee, but shall be subject to internal monitoring.
2. Renewal or material changes in the terms and conditions of the transaction require approval of the original body which authorized the transaction.
3. In case a member of the RPT Committee has conflict of interest in a particular related party transaction, he should refrain from evaluating the fairness thereof.
4. All violations including those done inadvertently or without bad faith shall be subject to appropriate action by the RPT Committee.

**BASIS OF MATERIALITY**

The basis for a significant transaction (P10 Million) is the existing threshold for identifying accounts that are subject to specific impairment review. The basis for a material transaction (P100 Million) is the existing credit authority structure for credit exposures where transactions beyond P90 - P100 Million require approval of the Executive Committee.

**E. ENDORSEMENT**

It is the responsibility of the Branch/Lending Unit/Head Office Unit to conduct the necessary KYC procedures to determine if a transaction is a Related Party Transaction and if it is covered by the guidelines of this Policy. The Initiating Unit shall be responsible for preparing the Credit or other approval medium together with the RPT Approval Form (if necessary or applicable) and submitting this to the Compliance Office for presentation to the RPT Committee after the appropriate endorsements have been obtained.

| <b>Transaction Type</b>   | <b>Initiating Unit/Branch</b>     | <b>Endorsing Authority</b>           |
|---|-----------------------------------|--------------------------------------|
| 1. Credit Transaction   | Lending Unit                      | RMRC / Excom                         |
| 2. Purchase / Sale / Transfer of assets or goods / Lease of Assets (including extensions) | ARG or Head Office Unit           | President / Center Head / Excom      |
| 3. Treasury Transaction   | Treasury Group                    | Market Risk Committee                |
| 4. Trust Transaction  | Trust Group                       | Trust Committee                      |
| 5. Purchase of services/ Outsourcing arrangements   | Controllership / Head Office Unit | President / Center Head / Group Head |
| 6. Technology Contracts   | IT Group                          | Technology Steering Committee        |
| 7. Others   | Concerned Unit                    | Responsible Head                     |

## **F. RPT LIMITS FOR INDIVIDUAL AND AGGREGATE EXPOSURES**

The Bank shall be guided by the following internal limits for Related Party Transactions (RPT), subject to the existing and separate prudential limits for DOSRI, Subsidiaries and Affiliates:

| <b>Type of Limit</b> | <b>Basis of Computation</b> |
|----------------------|-----------------------------|
| Individual RPT Limit | 10% of the Bank's Equity    |
| Aggregate RPT Limit  | 50% of the Bank's Equity    |

The limits shall be used for monitoring purposes and shall apply only to Related Party Transactions beyond the scope of DOSRI transactions which are already covered by separate prudential limits. (Refer to Part II of this Document). RPT's shall be counted on a cumulative basis (in a given year) for purposes of determining compliance to the limits. Breaches in the limits shall be reported to the RPT Committee and the Board of Directors which shall recommend the necessary actions to be taken, if necessary and warranted, and duly noted in the minutes of the meeting.

## **G. UNACCEPTABLE TRANSACTIONS OR ACTIVITIES**

The Bank shall not allow use of its facilities for the furtherance of criminal or other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.

## **H. BOARD DUTIES AND RESPONSIBILITIES (PER BSP CIRCULAR 895)**

The Board shall have 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.

The RPT policy shall include, but not limited to the following:

- a. Definition of Related Parties
- b. Coverage of RPT Policy
- c. Guidelines in Ensuring Arm's Length Terms
- d. Conflicts of Interest
- e. Materiality Thresholds and Excluded Transactions
- f. Internal Limits for Individual and Aggregate Exposures
- g. Whistle-blowing Mechanisms
- h. Restitution of Losses and Other Remedies for Abusive RPTs.

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;
  - Identify, measure, monitor and control risks arising from RPTs.

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

5. To maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. 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.
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.

#### **I. FUNCTION OF THE RPT COMMITTEE**

The Related Party Transaction Committee is a board-level committee composed of five (5) members, three (3) of whom are Independent Directors including its Chairman. The other two (2) members are the Head of Internal Audit Division and the Chief Compliance and Corporate Governance Officer. The Committee assists the Board of Directors in the fulfillment of its corporate governance responsibilities on related party transactions by ensuring that these are transacted at arm's length, in the ordinary course of business and in accordance with existing policies and regulations. Where applicable, the Committee reviews and approves related party transactions or endorses them to the Board for approval or confirmation.

#### **J. RESPONSIBILITIES OF THE RPT COMMITTEE (PER BSP CIRCULAR 895)**

The RPT Committee shall have the following and responsibilities:

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:

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

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

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. 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.
4. 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.
5. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
6. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

## **K. ROLES AND RESPONSIBILITIES OF MANAGEMENT**

### **ADMINISTRATION OF THE RPT POLICY**

1. **Compliance Office** – The monitoring and reporting of all RPTs shall be the administrative responsibility of the Compliance Office. It shall be in charge of assisting the RPT Committee in fulfilling its oversight functions. It shall ensure that the Bank complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall assist in the review of the Bank's transactions and identify any potential RPT that would require review by the RPT Committee. The Compliance Office shall ensure that the RPT Policy is updated and is properly implemented throughout the Bank.

### **DOSRI AND RPT MASTER LIST**

2. **Enterprise Risk Management** – shall be responsible for establishing and updating the Master List of DOSRI, Subsidiaries, Affiliates and Other Related Parties. The information shall be gathered from the BSP Biographical Data Sheet, Human Resources, Stock Transfer Unit, Relationship Managers and other information available to the Bank. The Related Party List shall be reviewed and updated on a regular basis, at least annually and shall be furnished to the Compliance Office.
3. **Compliance Office** – shall be responsible for providing the Related Party List to Key Officers of the Bank for further dissemination to their respective functional areas.
4. **Human Resources** – shall be responsible for establishing and updating the Biographical Data of all Officers, their spouses, first degree relatives, and second degree relatives by

consanguinity and affinity. The Data file shall be reviewed and updated regularly to ensure that all DOSRI and RPT transactions are captured and reported properly.

5. **Directors and Bank Officers** – shall be accountable for the completeness and accuracy of the Annual Biographical Data submitted to the Bank and the BSP. Officers are likewise required to disclose companies where they have an equity interest of at least 20% or interest in any entity that may be considered a related party.
6. **Stock Transfer unit** – responsible for providing the monthly report of Stockholders owning at least 1% and 10% of the Bank's equity. This will be the basis for obtaining additional data on the related interests of stockholders.

#### **TRANSACTION INITIATION**

7. **Initiating Unit / Branch / Responsible Bank Officer** – Before undertaking a transaction, the Branch or Responsible Bank Officer shall determine whether the transaction qualifies as an RPT based on the guidelines of this Policy and ascertain which procedures shall apply. If the transaction is a covered DOSRI transaction, the guidelines on DOSRI should be followed. The initiating Officer/Branch shall be responsible for undertaking the following activities:
  - a. Check if the counterparty is in the Related Party List and if the transaction falls within the scope and coverage of a related party transaction.
  - b. If the transaction is a covered RPT, the responsible officer is required to provide all the relevant or material information in the RPT Form (attached in Appendix A) or in the applicable approval medium, as follows:
    - Name of the Related Party and information material to the discussion
    - Amount or economic value
    - Transaction description, terms, conditions, manner of execution
    - Fairness of the transaction and valuation methodology
    - Reasons for entering into the transaction
    - Transaction risks, if any
  - c. Determine if the transaction qualifies as a Significant or Material transaction, and seek endorsement and/or approval from the appropriate Unit/Head prior to submission to the RPT Committee.

The responsible Bank Officer/Branch shall elevate to the RPT Committee transactions in which a non-related party (with whom the Bank entered into a transaction) subsequently becomes a related party and vice-versa.

#### **REVIEW AND APPROVAL**

8. **Endorsing Authority** – The relevant body or authority shall review the RPT transaction in accordance with the guidelines established in this policy. It shall make a thorough and detailed review to ensure that any potential conflict of interest is avoided. This includes assessing the reasonableness of the prices, terms and conditions of the transaction with reference to similar commercial terms for transactions with unrelated parties taking into consideration the

demand and supply, comparative quality and delivery of the product or service. Where it is not feasible to obtain comparative prices or quotes, such transactions should be negotiated in the Bank's best interest and on terms applicable for similar service to a third party.

9. **RPT Committee** – The RPT Committee will review and consider the following:
- a. Extent of conflict of interest
  - b. Terms of the transaction and if these are similar to terms given to unrelated third parties under similar circumstances
  - c. Rationale and benefits of the transaction
  - d. Total value of the transaction and valuation methods used
  - e. Whether the transaction includes any potential regulatory or reputational risk

After reviewing the transaction and considering all the relevant circumstances, the RPT Committee shall indicate its action taken thereon. For items within its authority approval, it shall submit a report of all transactions to the Board for confirmation. For those beyond its authority, the RPT Committee shall submit the proposed transaction to the Board for its approval together with its comments, if any.

The RPT Committee Secretariat shall maintain complete files of these transactions for proper record keeping, reporting and monitoring. This includes other transactions that are brought to its attention including those which were transacted with a previous non-related party that has subsequently become a related party.

## **OVERSIGHT**

10. **Senior Management** – Senior Management shall implement appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the Bank's policy and BSP regulations.
11. **Internal Audit** – Internal Audit shall conduct a periodic formal review of the effectiveness of the Bank's system and internal controls governing RPT's to assess consistency with Board-approved policies and procedures. The audit reports, including the exceptions and breaches in limits, shall be communicated to the Audit Committee.

## **L. GUIDELINES IN ENSURING FAIRNESS AND ARM'S LENGTH TERMS**

The unit or person in charge of the transaction shall ensure that dealings with related parties are entered into at terms that promote the best interest of the Bank and its stakeholders, conducted at arm's length basis and transacted in the ordinary course of business. The price discovery mechanism may include the following:

1. Applying the same terms, conditions and pricing as with unrelated parties for similar products, category and risk profile. In general, a deviation beyond 10% of the normal price range is considered an exception.

2. Undertaking contract terms and arrangements that are commercially negotiated taking into account the demand, supply, quality and delivery of the product or service.
3. Requiring the services of an external expert
4. Opening the transaction to a bidding process; or
5. Publication of available properties for sale

Where it is not feasible or practical to obtain comparable quotes or prices, such transactions shall be negotiated in the best interest of the Bank.

#### **M. PROCEDURES FOR URGENT TRANSACTIONS OR CIRCUMSTANCES**

For reasons of urgency, a related party transaction that requires prior authorization from the RPT Committee or the Board may be transacted upon the clearance of the Chief Executive Officer of the Bank provided that there are sufficient justifications. Immediately after, the RPT Committee and the Board shall be informed of the transaction.

#### **N. DISCLOSURE OF CONFLICTS OF INTEREST / WHISTLE-BLOWING MECHANISMS**

The following guidelines shall apply:

1. The member of the Board, Stockholders and Management shall disclose whether they directly or indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the Bank. They shall be required to disclose material facts about the nature of the transaction, including whether the terms and conditions of the proposed related party transaction are at arm's length and in the best interest of the Bank and its stakeholders. They shall abstain from the discussion, approval and management of such transaction or matter affecting the Bank.
2. Employees and staff are encouraged to report concerns regarding any related party transaction to the appropriate authority. This is articulated in the Bank's **Code of Conduct**. The Bank shall also be guided by other policies and guidelines on **Conflicts of Interest** and **Whistle-Blowing** in the Bank's **Manual on Corporate Governance** and other pertinent **Policies involving Personal Transactions**.

#### **O. RESTITUTION OF LOSSES**

The Bank will adhere to its **Code of Conduct** in dealing with transactions that may result/have resulted in losses from related parties. This shall allow the bank to cut any further potential losses that may occur and allow recovery of losses already incurred. This will also be done for any opportunity costs incurred by the Bank arising from RPTs that are not engaged on arm's length terms.

## P. DISCLOSURE AND REGULATORY REPORTING REQUIREMENTS

For purposes of transparency and to comply with regulations, the following guidelines shall apply:

### Annual

1. The Bank shall disclose in its Annual Report:
  - a. The overarching policies and procedures for managing RPT's, including managing of conflicts of interest or potential conflicts of interest
  - b. Responsibility of the RPT Committee and Audit Committee
  - c. Nature, Terms and conditions as well as the aggregate amount of outstanding balances, including off-balance sheet commitments of material RPT's.
2. The RPT Committee shall also require the Bank's Stockholders to confirm by majority vote in the Annual Stockholders meeting, the Bank's significant or material transactions with its DOSRI and other Related Parties.

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

3. The Bank shall report all entities in the conglomerate structure where it belongs. The conglomerate structure shall likewise disclose beneficial owners of shareholding 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.**

### Quarterly

4. The Bank 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 internal definition **within 20 calendar days after the end of reference quarter** (starting with the quarter ending March 31, 2016). The standard template for reporting is attached to BSP Circular No. 895.

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.

**Q. DISSEMINATION OF INFORMATION**

The Policy on Related Party Transactions shall be uploaded in the Bank's General Circulars upon approval by the Board of Directors.

**R. REVIEW OF POLICY GUIDELINES**

The Policy guidelines shall be reviewed and updated as necessary or warranted. Any amendment in the guidelines shall be approved by the Board of Directors.

**APPENDIX A  
UNION BANK  
FORM FOR REPORTING RELATED PARTY TRANSACTIONS**

In compliance with the Bank’s policy on related party transactions, the following information is being presented for approval and authorization of the RPT Committee and the Board of Directors.

|   |  |
|---|--|
| 1. Name of Related Party  |  |
| 2. Nature of Relationship   |  |
| 3. Type of Transaction  |  |
| 4. Discussion of Terms and if the transaction was conducted on an “arm’s length basis” (Provide the necessary information). |  |

**Justifications, Reasons and Other Remarks (including Risks of the Transaction):**

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**Attach Supporting Documents, as needed:** \_\_\_\_\_

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|---------------------|---------------------|---------------------|
| <b>Prepared By:</b> | <b>Reviewed By:</b> | <b>Endorsed By:</b> |
|                     |                     |                     |