BPI's POLICY ON MATERIAL RELATED PARTY TRANSACTIONS

INTRODUCTION

The Securities and Exchange Commission (SEC), in its efforts to further strengthen corporate governance of publicly-listed companies (PLCs) while providing more transparency on transactions among related parties, has issued pertinent SEC Rules on Material Related Party Transactions[1] (Material RPT Rules).

SEC recognizes that transactions between and among related parties may create financial, commercial and economic benefits to individual institutions and to the entire group where said institutions belong. In this regard, related party transactions (RPTs) are generally allowed provided, that when RPTs amount to ten percent (10%) or higher of a company's total assets, it shall be considered as material related party transactions subject to said SEC Rules.

SCOPE

This policy –

a. covers credit and non-credit transactions with related parties as defined in this policy and aligned with the SEC Rules on material RPTs;

b. applies to all publicly-listed companies (or "PLC" as generally referred to in this document) of the BPI Group

OBJECTIVE

a. To further strengthen the BPI Group's corporate governance over related party transactions through SEC-compliant internal guidelines;

b. To avoid occurrence of abusive RPTs

POLICIES

I. Related Party (RP) Coverage

A. The PLC's related parties are defined as follows:

1. Directors, Officers, substantial Shareholders[2] (DOS) and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence[3] over the reporting PLC. 'Officers' shall refer to the PLC's officers with the rank of at least Senior Vice President (SVP).

2. The reporting PLC's parent, subsidiary, fellow subsidiary, associate[4], affiliate[5], joint venture or an entity that is controlled[6], jointly controlled or significantly influenced or managed by a person who is a related party.

B. Due process shall be conducted by concerned units to determine whether their counterparties and related transactions are covered under the RPT guidelines.

II. Material Related Party Transactions (RPTs)

A. Any transaction that involves a transfer of resources, services or obligations between the PLC and its related party shall be considered a related party transaction. However, related party transactions that are excluded from materiality threshold as allowed by the PLC's other regulators (e.g., Bangko Sentral ng Pilipinas) shall likewise be considered as exclusions in this policy.

B. **Material RPTs.** Related party transaction/s, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of the PLC's total assets based on its latest audited financial statement shall be considered material RPTs subject to the SEC Rules. If the reporting PLC is a parent company (e.g., BPI), the total assets shall pertain to its total consolidated assets.

C. Material transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, cited prior RPTs shall be subject to the requirements of this policy including reportorial requirements upon:

1. Renewal / Extension of the facility / contract;

2. Any alteration to the terms and conditions of the facility / contract;

3. Increase in exposure level

III. Arm's Length Concept

A. A related party transaction is deemed conducted at arm's length terms when it is done in the regular course of business of the PLC and are not undertaken on more favorable economic terms (e.g., interest rates, price, fees, commissions, tenor, collateral requirements, etc.) than similar transactions with non-related parties under similar circumstances. Further, the RPT should be engaged into at terms that promote the best interest of the PLC and its stakeholders.

B. Vetting is a process wherein a specific body evaluates the fairness of the terms of the material RPT and ensures that RPT terms are arm's length. It shall include comparison of RPT terms with the terms granted to non-related parties under comparable circumstances and conditions. In cases where comparable transactions are not available, adequate justifications on the selection of the related party and on the benefits of the engagement to the PLC shall be provided.

Vetting is not itself the approval of the related party transaction.

IV. Vetting Committee

A. The BPI Related Party Transaction Committee (RPTC) is a Board-level committee tasked to conduct vetting on RPTs that are classified as material transactions based on materiality thresholds for vetting purposes, and endorse the same for final approval.

B. The RPTC shall be composed of at least three (3) Independent and/or Non-Executive members of the BPI Board, the majority of whom shall be Independent Directors. The Chairperson must be an Independent Non-executive Director of the Board. Majority of the members, regardless of position, shall constitute a quorum.

V. Processes in Handling RPTs

A. Related Party (RP) Identification

1. Concerned units shall conduct the proper RP identification process to identify related parties in their respective transactions.
2. A Related Party Registry[7] shall be maintained and periodically reviewed / updated by the PLC's RPTC Secretariat (or equivalent unit) based on information received from concerned units and other sources.

B. Material Related Party Transaction (RPT) Vetting

1. Concerned proponent / AO / RM shall:
   a. Determine if the proposed RPT is classified material or non-material per SEC Rules, either individually or in aggregate balance for the reference year.
   b. Determine the applicable vetting and approval requirements.
2. Prior to approval and/or implementation of the material RPT, the proponent / AO / RM shall prepare the RPT proposal.
3. The RPTC shall vet on the terms and conditions of material RPTs. The services of an external independent party may be required by the RPTC as it deems necessary to obtain additional information that will aid the vetting process.
4. Directors and officers with personal interest in the transaction shall fully and timely disclose any and all material facts, including their respective interests in the material RPT and abstain from the discussion, approval and management of such transaction or matter affecting the PLC.
5. Upon presentation to the RPTC / Board of Directors and prior to execution, proposals for material RPTs shall include disclosure of all material facts related to the RPT, such as the direct and indirect financial interest of board members, shareholders and/or officers in the transaction.

C. RPT Approval

1. All RPTs shall comply with the prescribed approval process per existing PLC policies.
2. In addition, RPTs that are classified as material transaction, as defined above, shall be approved by at least two-thirds (2/3) vote of the board of directors, with at least a majority of the independent directors voting to approve the material RPT. In case that a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.
3. For aggregate RPTs within a twelve (12)-month period that breach the materiality threshold of ten percent (10%) of the Bank's total assets, the same board approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same related party.

D. Self-Assessment / Post-Verification

1. The Internal Audit shall conduct a periodic review of the effectiveness of the company's system and internal controls governing material RPTs to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

2. The PLC’s Compliance Office shall ensure that the company complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall likewise conduct independent testing on unit's compliance with BSP regulations on RPTs.

E. **Reporting of RPTs**

The provisions of this policy notwithstanding, the requirements for monitoring and reporting of transactions involving DOSRI, Subsidiaries, and Affiliates shall continue to be observed and strictly complied with in accordance with existing laws, rules, regulations and internal policies and shall not be deemed superseded, revised or amended by this policy.

1. Parameters for Reporting

A RPT is reportable to the SEC under SEC Rules if the RPT meets the following conditions:

a. The counterparty falls within the definition of Related Party as defined above;

b. The amount involved in the covered RPT falls within the Materiality Threshold as prescribed by the SEC Rules.

2. Reportorial Requirements

SEC Rules requires the submission of the following reports:

a. Summary of Material RPTs – disclosure of material RPTs approved during the reporting year which shall be disclosed in the company’s Integrated Annual Corporate Governance Report (I-ACGR)

b. Advisement Report – submission of any material RPT filed within three (3) calendar days from the execution date (approval) of the transaction. The Advisement Report shall be signed by the reporting PLC’s Corporate Secretary or its authorized representative.

VI. Conflict of Interest / Whistle Blowing

A. Cases of conflict of interest and handling of personnel, officers or directors who have been remiss in their duties in handling material RPTs shall be governed by the Manual of Corporate Governance and specific HR policies.

B. The PLC’s Whistle Blowing Policy shall also apply to RPTs.

[1] SEC Memorandum Circular No. 10 – Rules on Material Related Party Transactions for Publicly-Listed Companies

[2] Substantial Shareholder – any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its security

[3] Significant Influence – the power to participate in the financial and operating policy decisions of the company but has no control or joint control of those policies

[4] Associate – an entity over which the reporting PLC holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the reporting PLC has significant influence

[5] Affiliate – refers to an entity linked directly or indirectly to the reporting PLC through any one or a combination of any of the following:

- Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the PLC, or vice-versa;
- Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;
- Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the reporting PLC and the entity; or
- Management contract or any arrangement granting power to the reporting PLC to direct or cause the direction of management and policies of the entity, or vice-versa.

[6] Control – a person or an entity controls a reporting PLC if and only if the person or entity has all of the following:

- Power over the reporting PLC;
- Exposure, or rights, to variable returns from its involvement with the PLC; and
- The ability to use its power over the reporting PLC to affect the amount of the reporting PLC's returns.

[7] Related Party Registry – a record of the organizational and structural composition, including any change thereon, of the company and its related parties