



October 11, 2019

PHILIPPINE STOCK EXCHANGE, INC.

Disclosure Department
6F PSE Tower One Bonifacio High Street
28th Street corner 5th Avenue Bonifacio Global City
Taguig City

Attention: MS. JANET A. ENCARNACION
Head - Disclosure Department

PHILIPPINE DEALING & EXCHANGE CORP.

37/F Tower 1, The Enterprise Center
6766 Ayala Avenue cor Paseo de Roxas
Makati City

Attention: ATTY. JOSEPH B. EVANGELISTA
Head- Issuer Compliance and Disclosure Department

Gentlemen,

In compliance with SEC Memo No. 10 re: Rules on Material Related Party Transactions for Publicly-listed Companies, we are pleased to submit to you our revised Framework and Policy Guidelines on related party, where we have incorporated the new SEC rules in our existing policy.

This Framework embarked on harmonizing and consolidating the Bank's compliance with the directives of both the Securities and Exchange Commission and that of the Bangko Sentral ng Pilipinas.

Thank you very much.

Very truly yours,

ALEXANDER C. ESCUCHA
Senior Vice President & Head
Investor & Corporate Relations Group

CHINA BANKING CORPORATION

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Tel. No. 885-5555 • Fax No. 815-3169 • www.chinabank.ph



02 October 2019

ATTY. RACHEL ESTHER J. GUMTANG-REMALANTE
Officer-In-Charge
Corporate Governance and Finance Department
Securities and Exchange Commission
G/F Secretary Building, PICC Complex
Roxas Boulevard, Pasay City, 1307

Dear Atty. Gumtang-Remalante:

We are pleased to submit the Bank's revised Framework and Policy Guidelines on related party in compliance with SEC Memo No. 10 re: Rules on Material Related Party Transactions for Publicly-listed Companies,

This Framework embarked on harmonizing and consolidating the Bank's compliance with the directives of both the Securities and Exchange Commission and that of the Bangko Sentral ng Pilipinas.

Thank you very much.

Very truly yours,

ORIGINAL SIGNED
HANS T. SY
Chairman of the Board

ORIGINAL SIGNED
ATTY. AILEEN PAULETTE S. DE JESUS
VP & Chief Compliance Officer



RELATED PARTY TRANSACTION (RPT) FRAMEWORK AND POLICY GUIDELINES

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China Bank's Related Party Transaction Framework and Policy Guidelines

I. Statement of General Policy

China Banking Corporation ("China Bank" or "The Bank") recognizes that transactions between and among related parties (as defined herein) may create financial, commercial and economic benefits to individuals, institutions and to the entire group where the Bank belongs.

In this regard, as required by existing regulations for related party transaction ("RPT"), the Bank, its Board, Management, all officers and staff including its subsidiaries and affiliates¹ (collectively referred hereafter as "China Bank Group") shall ensure that RPTs are done on an arm's length basis² and that the appropriate oversight and implementation of an effective control system for the management of exposures are in place.

Therefore, the Bank's Board of Directors, Management, officers and staff, including concerned personnel in the subsidiaries and affiliates are mandated to comply with the policies in this RPT Framework ("RPT Framework" or "Framework") and shall not allow RPTs that may lead to abuses or may cause disadvantages to the Bank, its depositors, creditors, fiduciary clients, and other stakeholders.

¹ *Applicability of this Framework to the subsidiaries and affiliates' shall be subject to their adoption of the Bank's RPT Framework, as may be applicable.*

² *Please refer to the Definition of Key Terms and Concepts.*

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II. Scope and Objective

This RPT Framework serves as a guide for the China Bank Group in its dealing with related parties ensuring that these dealings are at an arm's length basis (as defined herein).

In particular, this Framework:

1. Defines related parties and the extent or coverage of related party transactions;
2. Clarifies the Board, Management and all other concerned units' responsibilities over an effective management of related party transactions;
3. Provides policies for the prevention of any abuse that may arise out of related party transactions through proper review & approval process and disclosures;
4. Requires the regular review of the system, control and RPT Policy; and
5. Provides the training requirements in order to ensure proper implementation.

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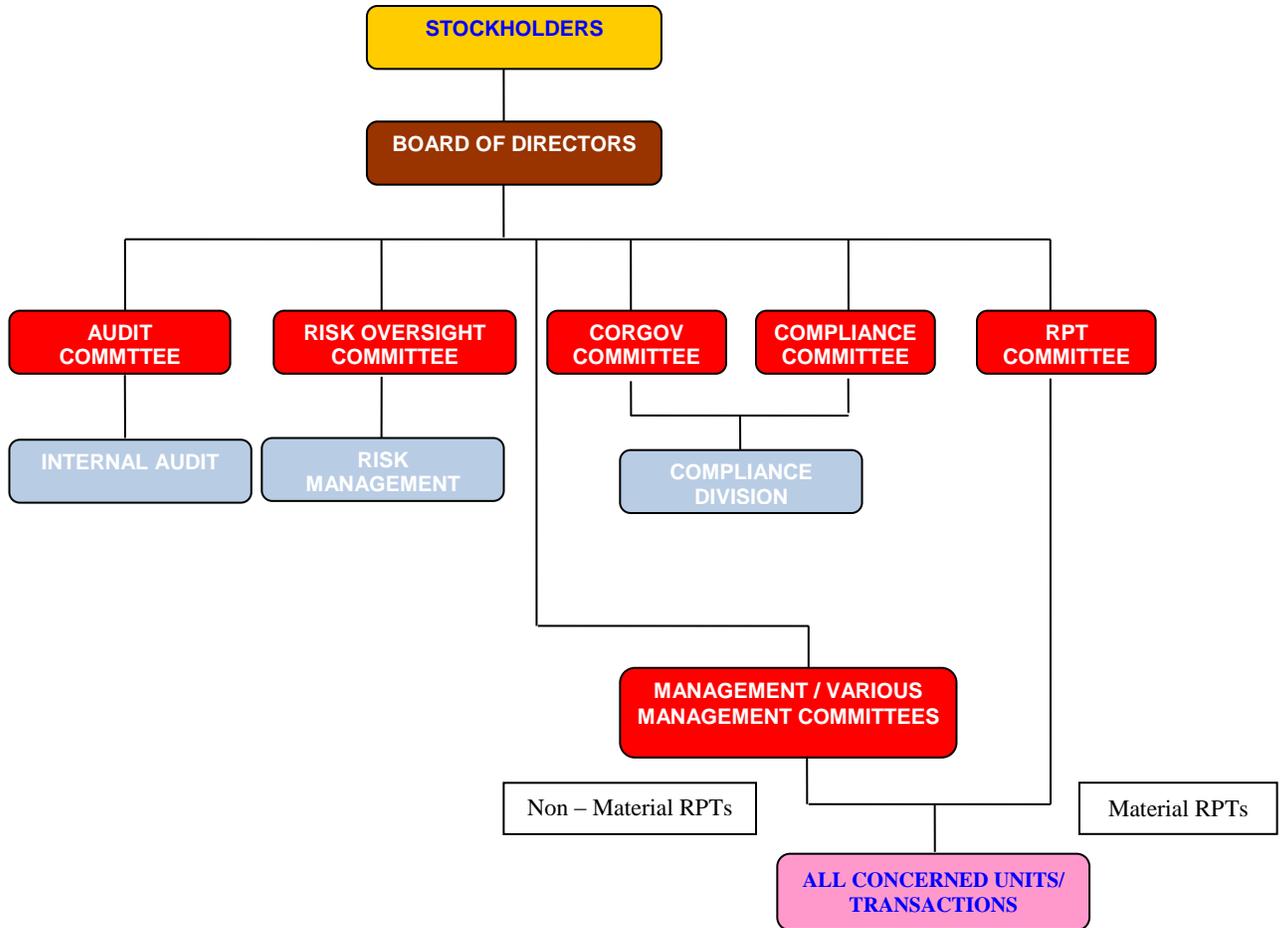
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III. Governance Framework on the Related Party Transactions

The Structure below shows the Governance Framework for RPTs of the Bank.

The Stockholders are on top of the Board, the Board has oversight functions and responsibilities over the created committees, including the RPT Committee, and for the setting of the “tone at the top” on RPT over the Internal Control Units (Control Units is otherwise referred to in the Framework as the Assessment Units).

Please refer to Section VI for the discussion on Assessment Units or functions.

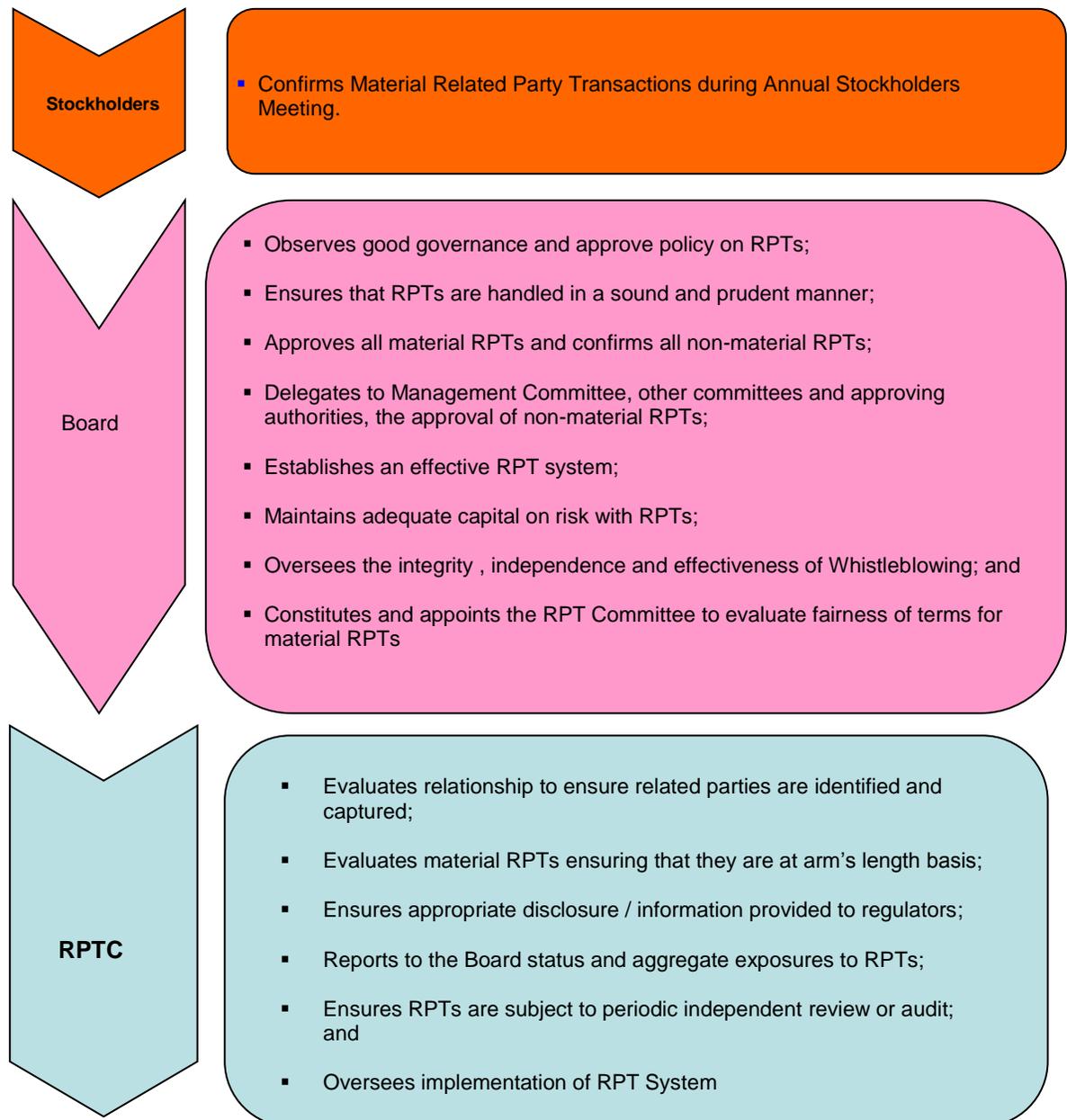


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Duties and Responsibilities of the Stockholders, Board and RPT Committee

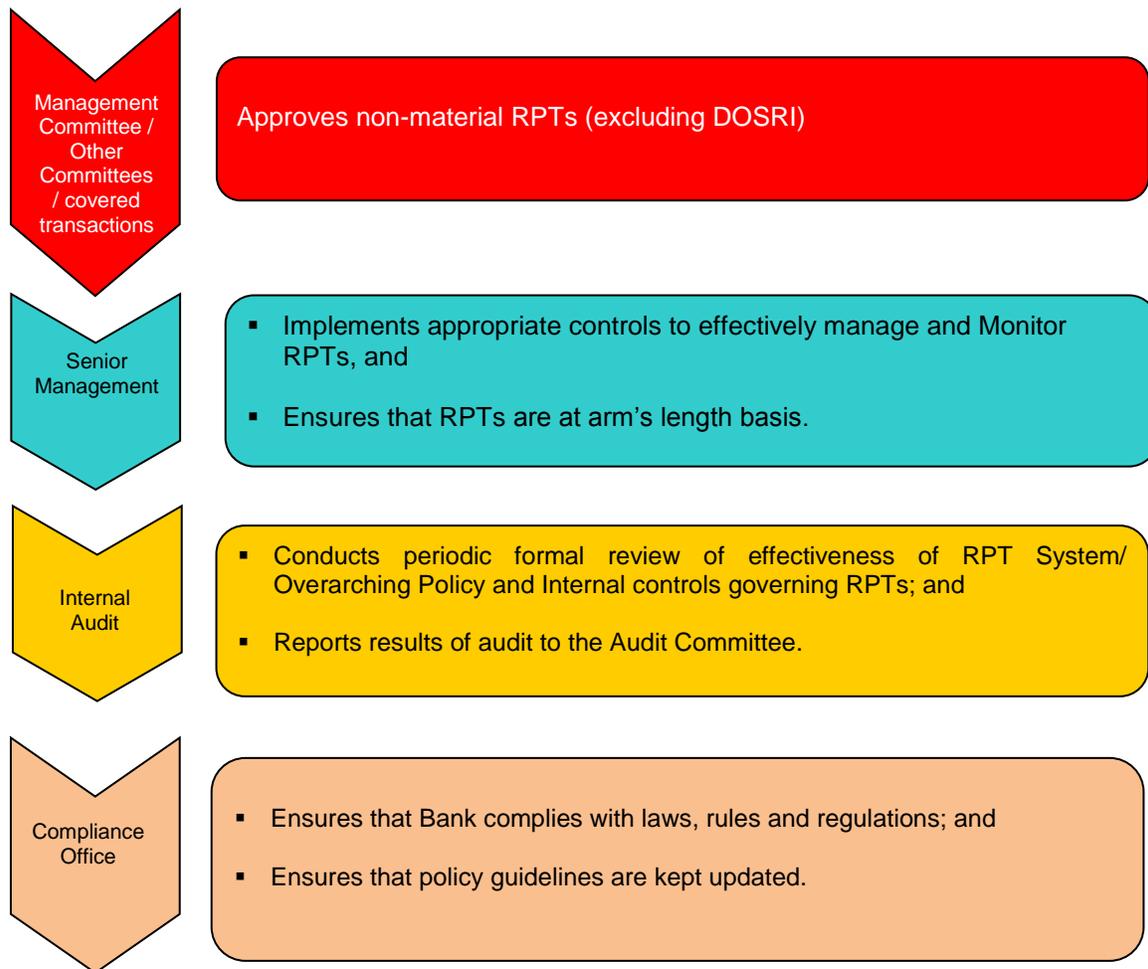
Please refer to Section VI for the discussion on the duties and responsibilities of the RPT Committee.



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Duties and Responsibilities of the Management Committee, Senior Management and Control or Assessment Units



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IV. Definition of Key Terms and Concepts

In this Framework:

1. Related Party - refers to the following:
 - 1.1 Bank's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and SPE) that the Bank exerts direct/indirect control/significant influence over or that exerts direct/indirect control/significant influence over the Bank;
 - 1.2 Bank's **DOSRI** (Directors, Officers, Stockholders, and Related Interest) as defined herein;

Directors shall refer to Bank Directors (named as such in the Articles of Incorporation, duly elected or those appointed, and those elected to fill in vacancies)³

Officers, for the purpose of this Framework, shall "refer to senior officers of the Bank having authority and responsibility for planning, directing and controlling the activities of the Bank, identified to be the President/CEO, may or may not be members of the Management Committee but with a rank of Senior Vice Presidents and above."⁴

However, for DOSRI purposes (in compliance with BSP rules), the definition of Officers shall follow the definition based on existing BSP rules on DOSRI.

Stockholders, for RPT Framework purposes, shall refer to any stockholder of record in the books of the bank, 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 lending bank, individual and/or collectively with the stockholdings of:

- a. his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption;
- b. a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and
- c. 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 bank.

³ BSP Circular No. 969, 22 August 2017

⁴ SEC Memo No. 5 Series of 2012

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Substantial Shareholder – is any person or group of person (natural or juridical), owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of the Bank, or who is directly or indirectly the registered beneficial owner of more than ten percent (10 %) of any class of the Bank's equity security.⁵

- 1.3 *Close Family Members* - shall refer to those persons related to the Bank's DOS within the SECOND (2nd) degree of consanguinity or affinity, legitimate or common-law.

In terms of compliance with SEC Memo No. 10 Series of 2019, details of these requirements are set forth under Sec VIII hereof, close family members of the DOS shall refer to those persons related up to FOURTH (4th) degree of consanguinity or affinity.

- 1.4 *Corresponding Persons in affiliated companies* are the DOS⁶ of the affiliated companies and their close family members.⁷

- 1.5 Such other persons/juridical entities whose interest may pose potential conflict with the interest of the Bank.

2. **Subsidiary** – refers to a corporation or firm more than fifty percent (50%) of the outstanding voting stock which is owned or controlled directly or indirectly through one (1) or more intermediaries by a bank or held with power to vote by its parent corporation.

3. **Affiliate**⁸ - refers to an entity linked directly or indirectly to a bank by means of:

- 3.1 Ownership, control as defined under item "d", Sec. 131.a of the MORB, or power to vote at least twenty percent (20) of the outstanding voting stock of the borrowing entity, or vice-versa;

- 3.2 Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under item "d", Sec 131.a of the MORB ; or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;

- 3.3 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;

- 3.4 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

⁵ *BSP MORB Section 131; SEC Memo No. 10, Series of 2019.*

⁶ *DOS shall mean Directors, Officers and Stockholders*

⁷ *The revised definition was approved by the Board on 05 April 2017*

⁸ *BSP Circular No. 914 dated 23 June 2016.*

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- 3.5 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.

In cases where the borrowing entity is linked to the lending bank both as DOSRI and as a subsidiary or affiliate, the DOSRI rules shall apply.

4. Related Interests⁹ – refer to any of the following:
 - 4.1 Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the bank;
 - 4.2 Partnership of which a director, officer, or stockholder of a bank or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
 - 4.3 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;
 - 4.4 Corporation, association, or firm of which any or a group of directors, officers, stockholders of the lending bank 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;
 - 4.5 Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items 4.2 and “4.4 above”;
 - 4.6 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 lending bank or which controls majority interest of the bank pursuant to MORB, item “g” of Section 362 (Definition of Terms);
 - 4.7 Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the lending bank; and
 - 4.8 Non-governmental organization NGOs/foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers of related banks.

⁹ *BSP MORB Section 131.m*

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The general principles and standards that will govern the business relationships between the banks and their related NGOs/foundations engaged in retail microfinance are found in Appendix 23 of the MORB.

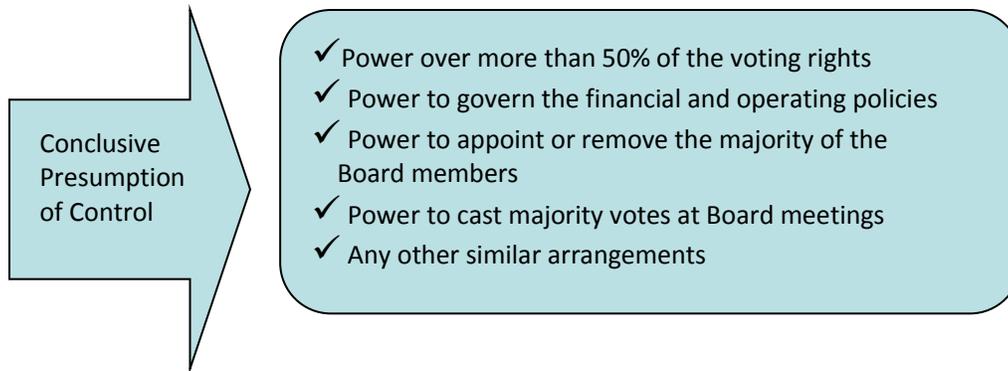
5. Associate – An entity over which the Bank (as a reporting PLC to SEC) holds twenty percent (20) or more of the voting power, directly or indirectly, or which the reporting PLC has significant influence.

6. Control of an enterprise exists when there is -

Control can be classified into two:

6.1 Conclusive Control

- 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.



6.2 Rebuttable Control

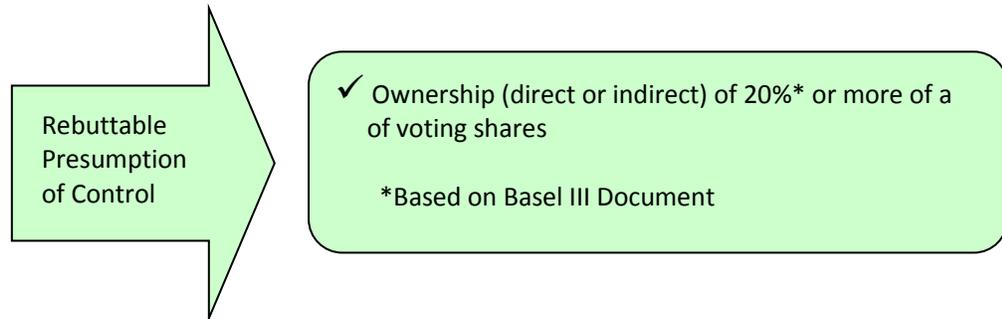
Control is presumed to exist if there is ownership or holding, whether direct or indirect, of 20 percent or more of a class of voting shares of a company.

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-stockholder

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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-stockholder will have only limited contacts with bank management that are customary for interested shareholders; (4) the Bank-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.



7. Related Party Transaction – refers to transactions or dealings with related parties of the Bank, including its Trust Department, regardless of whether or not a price is charged. These shall include, but not limited to the following:
 - 7.1 On- and off-balance sheet credit exposures (including credit card limits) and claims and write-offs;
 - 7.2 Investments and/or subscriptions for debt/equity issuances;
 - 7.3 Consulting, professional, agency and other service arrangements/contracts;
 - 7.4 Purchases and sales of assets including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements, etc.);
 - 7.5 Construction arrangements/contracts;
 - 7.6 Lease arrangements/contracts (including extension of lease);
 - 7.7 Trading and derivative transactions;
 - 7.8 Borrowings, commitments, fund transfers and guarantees;
 - 7.9 Sale, purchase or supply of any goods or materials;
 - 7.10 Establishment of joint venture entities; and
 - 7.11 Products and Services of Trust Group;

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RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

8. Arm's length basis – refers to RPTs being conducted in the regular course of business (fair process) and 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 (fair terms).
9. Arm's length terms – refers to the standard under which unrelated parties, each acting in his or her own best interest, would carry out a particular transaction.
10. Material RPTs – refer to transactions that are included in the materiality threshold and subject to reporting requirements of the BSP and SEC.

The RPT Committee shall establish material thresholds, in compliance with existing rules and regulations, a schedule or list of thresholds shall be subject of implementing rules which shall be reviewed periodically or as necessary. However, for purposes of compliance with SEC Memo No. 10, the Bank's materiality threshold shall be ten percent (10%) or higher of the Bank's total consolidated assets based on the latest audited financial statement.¹⁰ The requirements for SEC Material RPTs are set forth in Sec VIII hereof.

All material RPTs shall be reviewed / endorsed by the RPT Committee and approved by the BOD

11. Non-Material RPTs – refers to transactions that are excluded from the materiality threshold and reporting requirements of BSP and SEC. Such transactions are approved by the existing approving body/authority.

Non-material RPTs are subject to aggregation.

12. Price Discovery Mechanism - is the process of determination of the price, rate or terms, to ensure that the transaction is engaged into at terms that promote the best interest of the Bank and its stakeholders.

¹⁰ *The Bank's audited financial statement is available on the Bank's website and in its Annual Financial and Sustainability Report.*

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V. RPT Principles and Guidelines

This RPT Framework shall be supported by an Implementing Policy Guidelines (“Policy”) to ensure its Groupwide¹¹ implementation, to be prepared and kept updated by the Business Process Management Division (BPMD) of the Bank.

The Policy shall contain more specific details about the duties and responsibilities of each unit, among others and the detailed procedures.

The RPT Policy¹² shall include, but not limited to the following:

1. Related Parties

- 1.1 The related parties are defined herein, and shall include the companies that are considered related parties of the Bank.

Please refer to Section IV of this Framework for the definition of terms.

- 1.2 The Policy shall also contain provisions on how to address parties that / who later on becomes a related party.

2 Coverage of RPT policy

The Bank’s coverage of related parties shall be broad enough to cover not just credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the Bank and its stakeholders.

In accordance with BSP Circular No. 895, the following shall be the covered transactions, unless revised:

- 2.1 On- and off-balance sheet credit exposures (including credit card limits) and claims and write-offs;
- 2.2 Investments and/or subscriptions for debt/equity issuances;
- 2.3 Consulting, professional, agency and other service arrangements/contracts;
- 2.4 Purchases and sales of assets including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements, etc.);
- 2.5 Construction arrangements/contracts;
- 2.6 Lease arrangements/contracts (including extension of lease);
- 2.7 Trading and derivative transactions;
- 2.8 Borrowings, commitments, fund transfers and guarantees;

¹¹ *Groupwide refers to the entire China Bank Group, its subsidiaries and affiliates.*

¹² *The Bank has an existing RPT Policy approved by the Board 01 April 2015.*

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- 2.9 Sale, purchase or supply of any goods or materials;
 - 2.10 Establishment of joint venture entities; and
 - 2.11 Products and Services of Trust Group.
- 3 RPT Registry or Database
- In relation to item no. 1 above, the Bank shall maintain a registry or repository of all known and identified related parties, to be updated quarterly and elevated annually to the RPT Committee by the Compliance Division for the Committee's evaluation.
- 4 Transactions with Unrelated Party that Subsequently Became Related Party
- 4.1 Transactions that were entered into with an unrelated party that became a related party may be excluded from the limits and approval process, provided there is no change in any of the terms and conditions.
 - 4.2 Any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the unrelated party became a related party shall subject the transaction to the requirements of the Policy. Thus, necessary recommendation and/or approval shall be observed and/or sought for the transaction.
 - 4.3 A review of the transaction shall be required to ensure that it has been conducted on an arm's length basis.
- 5 Observance of Arm's Length Terms
- In ensuring that a related party transaction is conducted at an arm's length basis, the following shall be taken into consideration:
- 5.1 Processing of the Transaction
 - The transaction is conducted in the regular course of business and in accordance with existing policies of the Bank.
 - 5.2 Economic Terms
 - The transaction is not taken on a more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) if compared to an unrelated party with similar transaction under similar circumstances.
 - 5.3 Price Discovery Mechanism (PDM)
 - a. When a material RPT is endorsed to the RPT Committee for its review by the concerned units, it shall be supported by: i) an

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endorsement form¹³ and ii) with an effective price discovery mechanism.

- b. The PDM may include price comparison from the market, bidding (for sale of properties), and publication of available property for sale, among others. In this regard, the documents supporting the said process shall be attached to the endorsement memo to aid the RPT Committee in the review of the transaction.
- c. The Price Discovery Mechanism may include acquiring professional or external expert service as may be determined by the RPT Committee.

5.4 Business Units, Account Officers or Relationship Managers (collectively hereafter referred to as “Concerned Units”) shall properly disclose in the endorsement form that all material or significant information about the account or transactions are disclosed correctly and properly in order for the approving body to come up with a sound decision or judgment and that no undue favor is granted to a related party.

6 Endorsement and Approval of RPTs

6.1 Material RPTs

All material RPTs shall be endorsed by the BU to the RPT Committee using the RPT Recommendation and Endorsement (For Material Transactions) form and approved by the BOD.

For transactions covering the SEC material RPT, the BU should ensure that the recommendation to the RPT Committee is duly supported by the report of the independent third party validator engaged for the purpose of determining fairness of price of the transaction. Please refer to Section VIII below for the requirements on SEC material RPTs.

6.2 Non-material RPTs.

All non-material RPTs shall follow the existing approval requirements of the respective BU transactions.

For credit transactions to DOSRI/Subsidiaries/Affiliates, approval by the BOD shall be required.

¹³ *The form and additional guidelines are in the implementing policy guidelines.*

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7 Conflict of Interest and Resolution

7.1 Avoidance of Conflict of Interest

Conflict between the interest of the Bank, of the employees and related parties should be avoided at all times. In cases of conflict, the interest of the Bank should prevail.¹⁴ Our Directors, Officers, Stockholders and related parties are not allowed to have direct or indirect financial interests that conflict or appear to conflict with their duties and responsibilities as employees of the Bank.

7.2 The Policy shall contain a provision on the identification and prevention of conflict of interest or the management of potential or actual conflicts of interest that may arise.

In this regard, the Directors and/or Officers concerned shall disclose any direct, indirect or on behalf of third parties, a financial interest in the transaction or matter affecting the Bank.

It shall be the responsibility of the Account Officer handling the Account to properly identify the party related to the transaction. That by signing the recommendation, the AO is attesting to the fact that the diligence required for the identification of possible conflict of interest was conducted.

7.3 Directors and/or officers with personal interest, related to or with any form of connection to a RPT, which may potentially result to a conflict of interest in the transaction, shall abstain from the discussion, deliberation, approval and management of such transaction or matter affecting the Bank.

7.4 Such abstention and reason therefore should be duly minuted by the secretary of the Committee or of the Board.

8 Materiality Thresholds and Excluded Transactions

8.1 Materiality Thresholds

a. The Policy shall adopt the materiality threshold as prescribed in this Framework for related party transactions, subject to regular review and should be duly approved by the Board of Directors.

Please refer to Section IV & VIII thereof, for the definition of material RPTs and the set materiality thresholds.

For purposes of Groupwide implementation, the subsidiaries or affiliates may adopt or come up with their own materiality threshold based on their size and complexity of transactions or operations.

¹⁴ *Bank's Code of Ethics, item 4.7, page 10* <<http://www.chinabank.ph/pdf/CBC-CODE-OF-ETHICS.pdf>>

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- b. Material transaction refers to transaction of which omission or misstatement thereof could pose significant risk to the Bank and could influence the economic decision of the Board of Directors.
- c. Materiality threshold, as allowed by the rules, may be set for each type of transaction and for each related party group, depending on the nature of the transaction and the risk involved.
- d. The Policy should also set the transactions that are excluded from the materiality threshold requirement.
- e. The Bank shall document the justifications for the materiality thresholds and exclusions set.

8.2 Excluded Transactions

Excluded transactions are related party transactions, but for purposes of reporting, are deemed excluded. The following, but not limited, are deemed excluded transactions, for BSP reporting purposes:

- b. Deposit Transactions
- c. Regular Trade Transactions involving purchases and sales of debt securities traded in an active market, and
- d. Those granted under BSP-approved fringe benefit programs.

For purposes of SEC compliance, only item “a” above, or deposit transactions are excluded, please refer to Sec VIII hereof for additional guidelines.

8.3 Internal limits for individual and aggregate exposures

In order to ensure that RPTs are within prudent limits, the Policy shall determine the internal limits for individual and aggregate exposures.

- a. Individual Limit shall refer to the limit for each related party.
- b. Aggregate Limit shall refer to the total exposures to all related parties.
- c. The limits to be set by the Policy, is tied to the Bank’s capital and consistent with the Bank’s risk appetite, risk profile, and capital strength.
- d. The limits shall be defined and set in relation to the Bank’s capital as discussed above.
- e. Any breach of the limit shall be reported to the Board of Directors by the Concerned Unit (as defined in the Framework) with a decision on whether or not to accept the exposure or to take steps to address the breach/es as the case may be.

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9 Whistleblowing Mechanism

In order to encourage employees to communicate, confidentially without risk of reprisal, legitimate concerns and illegal, unethical or questionable RPTs, the Policy shall adopt the whistle blowing process under the Whistleblowing Policy of the Bank as approved by the Board on 08 December 2011, as amended.

10 Restitution of losses and Other Remedies

10.1 The Policy shall include measures that would cut losses arising from RPTs that are engaged or entered into not on an arm's length terms and to allow recovery of the said losses or opportunity loss.

10.2 The Policy shall likewise provide that by signing the recommendation or justification for any RPT, the Account Officer, concerned officer of the unit endorsing the RPT or the responsible officer thereof, certifies that the information in the form are complete, accurate and validated to the best of his / her knowledge.

10.3 Directors, officers and any personnel who have been remiss in their duties and responsibilities in handling RPTs shall be dealt with in accordance with the existing policies of the Bank, such as, but not limited to, the Bank's Code of Ethics, Whistleblowing Policy, Fraud Handling, and Administrative Cases.

11 Record of Board Actions

The actions of the Board shall be duly reflected in the Minutes by the Corporate Secretary.

12 Review and Approval of the Policy

The Policy shall be reviewed and endorsed for approval of the RPT Committee and subsequently, approval of the Board of Directors.¹⁵

¹⁵ *Any revision in this Framework and Policy Guidelines for SEC purposes, upon the initial approval of the Board, shall also be presented to the Stockholders (in their next stockholders' meeting) for their approval or ratification of any change in the Framework and Policy Guidelines, with the initial approval of the Board.*

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VI. General Policy Statements

A. Duties and Responsibilities

1. Stockholders

- 1.1 Stockholders should confirm all material RPTs approved by the Board by majority vote during the Annual Stockholders' Meeting.

In this regard, 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 shall be provided to the stockholders to allow them to make an informed judgment as to the reasonableness of the transactions and duly reflected in the minutes of the stockholders' meeting.

Additional information may be required to be included in the material RPTs that are for the ratification of the stockholders. Please refer to Section VIII, item 4.5 on the required Advisement Report.

2. Board of Directors

The Board of Directors has the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

- 2.1 To observe good governance, approve and institutionalize 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.

This framework shall be adopted by the Bank's subsidiaries up to the extent that is applicable to them which shall be duly approved by their respective Board of Directors.

- 2.2. To approve all material RPTs, those that cross the materiality threshold, and writ-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. This shall include the requirement of an Advisement Report under Section VIII, item 4.5.

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- 2.3 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.

In this regard, it shall be the responsibility of the Bank's Office of the Corporate Secretary to ensure that deliberation or discussions in the Committee meetings are duly minuted.

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

The system shall be able to define related parties' extent of relationship with the Bank; 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.

- 2.5 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 test 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.

- 2.6 To oversee the integrity, independent, and effectiveness of the policies and procedures for Whistleblowing. The board should ensure that senior management addresses legitimate issues on RPT and are raised. The board should take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.

- 2.7 To constitute an RPT Committee¹⁶ 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 the RPTs.

The RPT Committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson.

¹⁶ *The Bank's RPT Committee was constituted on 04 June 2014 with a corresponding Charter. The said Committee is composed entirely of Independent Directors.*

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The Committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members.

In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction.

The Compliance Officer or Internal Auditor may sit as resource persons in said Committee.

The full responsibilities of the RPT Committee shall be incorporated in its Charter, to be approved by the board and reviewed annually or as the need arises.

3. Management Committee (ManCom) /Appropriate Committee

All non-material RPTs shall follow the existing approval process. Example, for trust transactions, to the Trust Investment Committee, Credit transactions to the Credit Committee.

However, on a quarterly basis all non-material RPTs (using the summary from the Bank's Accounting Division of all non-material RPTs) for the semester, shall be elevated / presented to the Management Committee for its information, notation of these non-material RPTs, to be elevated to the Board for its confirmation.

4. Management Committee

The ManCom shall:

- 4.1 Implement appropriate controls to effectively manage and Monitor RPTs, and
- 4.2 Ensure that the same are at arm's length basis.
- 4.3 Elevate to the Board all non-material RPTs for its confirmation on a semestral basis.

5. Related Party Transaction Committee

The Committee shall:

- 5.1 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 relationship with counterparties (from non-related to related and vice-versa) are captured.

Related parties, RPTs, and changes in relationship shall be reflected in the relevant reports to the board and regulators/supervisors.

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- 5.2 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 unrelated 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 RPT 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; and
 - 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 shall be endorsed by the RPT Committee to the BOD for approval.

- 5.3 Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPT exposure, 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.

In this regard, this Framework and the Policy to be issued thereafter, and any amendments thereto shall be presented to the RPT Committee for its endorsement for the approval of the Board.

- 5.4 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.

To this, the RPT Committee shall forward back the reviewed Request for Endorsement of Material RPTs to the Business Unit for the latter's inclusion of the request for approval of RPTs in the BOD meeting agenda;

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- 5.5 Ensure that transactions with Related Parties, including write-off of exposures, are subject to periodic independent review or audit process; and
- 5.6 Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

A copy of the Bank's Related Party Transaction Committee Charter is available in the Bank's website www.chinabank.ph¹⁷

B. Roles of Senior Management

The Bank's Senior Management through the Management Committee shall be tasked to implement the appropriate controls to effectively manage and monitor RPTs on per transaction and aggregate basis. Exposures to related parties shall be monitored on an ongoing basis to ensure compliance.

C. Self-Assessment Functions

The Internal Audit, Compliance Office and Risk Management Group shall be tasked to assist the Board and the Senior Management in instituting control and effective management of the RPTs, with the following responsibilities:

- 1. Internal Audit
 - 1.1 The Bank's Internal Audit shall conduct a periodic review of the effectiveness of the Bank's system and internal control governing RPTs to assess consistency with the board-approved policies and procedures.

The audit reports on the above-mentioned periodic review including exceptions or breaches in limits, shall be reported directly to the Bank's Audit Committee.
 - 1.2 It shall also perform a periodic assessment of the overarching RPT Policy and procedures. Periodic shall mean annually, or as necessary, based on recent regulatory issuances.
 - 1.3 The Bank's Internal Audit Division shall develop its own Audit Program in order to comply with the above requirements on control approved in accordance with the existing policies of the Bank.
- 2. Compliance Division

The Compliance Division shall ensure that the Bank complies with relevant rules and regulations through its compliance testing in accordance with the Bank's Compliance Program and is informed of regulatory developments in areas affecting related parties.

¹⁷ <https://www.chinabank.ph/pdf/RPT-Committee-Charter.pdf> <visited on 18 September 2019>

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It shall aid in the review of the Bank's transactions and identification of related party that would potentially require the review of the RPT Committee or the Board.

It shall ensure as well that the RPT policy of the Bank, through the Bank's Business Process Management Division is kept updated and is properly implemented bankwide.

3. Risk Management

Risk Management shall maintain adequate capital against risks associated with exposures to Related Parties.

Include the material risks arising from RPTs in the capital planning process and ensure that the prescribed scenario/stress tests under the capital planning process also capture RPTs to determine whether the Bank is well-insulated from any going concern issue of related parties.

D. Business Units

1. The Policy shall properly define the meaning and extent of coverage of Business Units ("BU"). But for the Framework purposes, BU shall refer to persons or units in the Bank that are directly dealing with a RP and covered transactions. This may refer to the Account Officer or Relationship Manager, the Branch or Head Office Unit [a profit center].

2. Business Units may also refer to the concerned units in the subsidiaries and affiliates) from which a related party report may arise for the purpose of reporting material RPTs to the BSP. The Policy shall clearly define this.

3. The BU shall be responsible in ensuring that related parties are properly identified.

4. BUs shall also be responsible in identifying if a transaction with a related party is among the covered transactions as defined in the Policy, for purposes of compliance with the Framework.

5. The BUs shall also be responsible for the preparation, verification and in seeking the necessary recommendation and approval of a related party transaction

Recommendation or endorsement from the Related Party Transaction Committee for material RPTs and the Approval of the Board.

6. The BUs shall also be responsible to engage an independent third party to evaluate the fairness of price determination of a RPT that would meet the SEC materiality threshold, under Sec VIII hereof.

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VII. Disclosure and Reporting Requirements

A. Disclosure

The Bank shall ensure that the required disclosures on RPTs are complied with, such as but not limited to:

1. Annual Report¹⁸
 - 1.1 The overarching policies and procedures for managing RPTs, including managing conflicts of interest or potential conflicts of interest;
 - 1.2 Responsibility of the RPT Committee;
 - 1.3 Nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material RPTs;
 - 1.4 In relation to the Bank's effort in elevating transparency and corporate governance practices, there are ASEAN Scorecard requirements for the Annual Report as regards RPTs, please refer to Annex 1 for the details of these requirements.

It shall be the responsibility of the CG Compliance Officer to coordinate with the Marketing Services Division of the Bank to inform the latter of these requirements to have them included in the preparation of the Annual Report.

2. ASEAN Scorecard Disclosure Requirements

In addition to the regulatory disclosure requirements, the Bank in its endeavor to raise the bar as regards compliance with international best practices on corporate governance, the Bank's Compliance Division shall ensure that the required ASEAN disclosures in the Website are complied with. For reference, attached as Annex 1 is the required website disclosure under the ASEAN CG Scorecard on related party transactions.

B. Reporting Requirements

The Bank shall ensure that the following, but not limited, reportorial requirement as regards RPTs are complied with:

1. Conglomerate Map / Report on Conglomerate Structure

The Bank shall prepare a conglomerate structure or map of the group where it belongs and the details of the beneficial owners of the entities in the group.

¹⁸ *The preparation of the Bank's Annual Report (Glossy) is under the responsibility of the Bank's Marketing Services Division, under Investor and Corporate Relations Group.*

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1.1 Content of the Map

- a. The map shall include all entities in the conglomerate structure. Please refer to Annex 2 for the BSP Template.
- b. The Map shall likewise disclose the beneficial owners of shareholdings that are in the name of PCD Nominee Corporation.
- c. The Map shall likewise disclose the beneficial owners of shareholdings that are in the name of PCD Nominee Corporation.

1.2 Preparation of the Map

- a. It shall be the responsibility of the CG Compliance Officer jointly with the Office of the Corporate Secretary to prepare the required Map under this Framework.
- b. It shall be the responsibility of the Compliance Division to present the Map to the CG Committee and the Board for approval while the Office of the Corporate Secretary shall be responsible for its submission to the BSP.
- c. The Map after the approval of the Board shall be provided to the Bank's Investor Relations for inclusion in the Bank's 20-IS Report (Definitive Information statement) and SEC Form 17-A (Annual Report).

1.3 Deadline for the Submission

The deadline for the submission of the Conglomerate Map to the BSP is every 30th of January of each year.

2. Reporting of Material RPTs

2.1 For Material RPTs to be reported to BSP -

- a. 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/non-bank financial institution's internal definition.
- b. The subsidiaries and affiliates covered by the above rule shall submit to the Bank their respective reports in accordance with

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the Policy as discussed in Section II of this Framework for proper consolidation.

c. Deadline for the Report

The Report shall be submitted within twenty (20) calendar days after the end of the reference quarter.

d. Exclusions

Excluded in the report are transactions concerning deposit operations, credit card availments, regular trade transactions involving purchases and sales of debt securities traded in an active market. That in the case of credit card lines when the amount is equal or above to the materiality threshold, the same shall be reported /included in the report upon approval of the line.

3. Stockholders Ratification of the Material RPTs by the Stockholders

3.1 The Bank shall cause all material RPTs for the confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes thereafter in the terms and conditions of RPTs shall also be approved by the Board of Directors.

3.2 The Bank's Corporate Secretary shall ensure that an item on the ratification of material RPTs are included in the ASM's agenda. The results shall be duly minuted.

VIII. Material Related Party Transactions in compliance with SEC Regulations

1. Coverage

1.1 SEC material RPTs shall cover all transactions (except for deposit transactions) that would fall within the SEC materiality threshold, as defined below, with the Bank's related parties.

1.2 Related Parties – shall refer to the Bank's directors, officers, substantial shareholders and their spouses and relatives within the 4th civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the Bank.

1.3 It also covers the Bank's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

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2. Materiality Threshold

Material SEC RPT are transactions whose amount (either individually or in aggregate basis) is ten percent 10% or more of the Bank's consolidated assets based on its latest audited financial statement.

3. Abusive material RPTs

Abusive material RPTs refer to material RPTs that are not entered at arm's length and unduly favor a related party.

Please refer to Section XI below for the guidelines.

4. Regulatory requirements

4.1 Approval of SEC Material RPTs

All individual or aggregate SEC material RPTs shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the independent directors voting to approve the material RPT.

In case that the majority of the independent directors' vote is not secured, the material RPT shall be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

Directors with personal interest in the transaction shall abstain from participating in discussions and voting of the same. In case they refuse to abstain, their attendance shall not be counted for the purpose of assessing the quorum and their votes shall not be counted for purposes of determining approval.

Non-material RPTs shall follow the usual approval process in accordance with Section V, item 6 above.

4.2 Aggregation of RPTs

The rules on SEC material RPTs require aggregation of transactions, which means that all RPTs of a related party should be aggregated, in an annual basis, i.e. over a twelve (12)-month period. In case such total reach the SEC materiality threshold as defined, it shall be the responsibility of the Account Officer/RM/BU to ensure compliance with the requirements.

- a. Monitoring – monitoring of compliance involving aggregate transactions shall be with the BUs concerned, using as point of determination the quarterly summary of related parties prepared by the Compliance Division.

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- b. Frequency of aggregation - Compliance Division shall, on a quarterly basis, consolidate all the material and non-material RTPs (on a per transaction basis). It will be based on the quarterly reports submitted by the BUs concerned to and as consolidated, by CAD.
- c. Consolidated report - the consolidated report shall serve as the basis by the Account Officer/RM/BU concerned in determining if the succeeding transactions of the RP will/or is about to breach the SEC materiality threshold.

For this purpose, the quarterly consolidated summary of RPTs shall be posted on the Compliance Public Folder by the Compliance Division, for the viewing/access of the units concerned, to aid in the monitoring of the aggregated amount of RPTs.

4.3 Independent Third Party Evaluation of Fairness of Price

To ensure transactions are determined at arm's length and in order to protect the rights of the shareholders and other stakeholders, the SEC requires that all material transactions¹⁹ by covered individuals and entities (separately and/or as aggregated) shall comply with the independent third party validation of fairness of price.

- a. The independent third party validation refers to that process of the Bank, through the AO / Business units concerned, of engaging an independent third party that will evaluate the fairness of the terms of the SEC material RPT.
- b. The external party may include, but not limited to auditing, accounting firms and third party consultants and appraisers.
- c. Once a RPT is determined to meet the SEC materiality threshold, the AO/RM/BU shall secure the required approval of the Board for the engagement of the independent third party.

The result of the third party validation shall be attached to the RPT material endorsement form, for the RPT Committee vetting process.

4.4 Ratification of the Stockholders

Please refer to Section VII.B.3 hereof for the guidelines.

¹⁹ *At least ten percent (10%) or more of the Bank's consolidated assets, based on its latest audited financial statement.*

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4.5 Advisement Report

- a. An advisement report on SEC material RPT shall be submitted by the concerned unit to the SEC within three (3) calendar days after the execution thereof. Execution shall refer to the signing of the contract or agreement.

The units concerned may coordinate with the Office of the Corporate Secretary for the preparation of the advisement report.

- b. At the minimum, the disclosure shall include the following information:
 - i. complete name of the RP;
 - ii. relationship of the parties;
 - iii. execution date of the material RPT;
 - iv. financial or non-financial interest of the RPs;
 - v. type and nature of transaction as well as description of the assets involved;
 - vi. total assets (consolidated assets, if the Bank is a parent company);
 - vii. amount or contract price;
 - viii. percentage of the contract price to the total assets of the Bank;
 - ix. carrying amount of collateral, if any;
 - x. terms and conditions;
 - xi. rationale for entering into the transaction; and
 - xii. the approval obtained (i.e., names of directors present, name of directors who approved the material RPT and the corresponding voting percentage obtained).

Please refer to Annex 3 hereof, for the format of the Advisement Report.

4.6 Disclosure Requirements

- a. Integrated Annual Corporate Governance Report (I-ACGR)

The *Annual Summary of Material Related Party Transactions* (that fall under the SEC materiality threshold) entered into during the reporting year shall be prepared and included by the Compliance Division in the Bank's integrated Annual Corporate Governance Report (I-ACGR), for submission to the SEC every May 30 of the year.

- b. Website

A copy of this Framework shall be posted on the Bank's website, within five (5) days from submission to the SEC (through the Corporate Governance and Finance Department of the SEC), in accordance with the SEC rules.

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It shall be the responsibility of the CG Department of Compliance Division to post a copy of this policy on the website.

For the guidelines on compliance with the disclosure requirements, please refer to Section VII.A.3 (Website).

5. Regulatory Sanctions

The SEC may impose the following on the Bank for any violation of the SEC rules on materiality threshold rules:

5.1 Non/Late Filing of or Incomplete/Incorrect Signature in the Material Related Party Transactions Policy:

BASIC PENALTY	PHP10,000.00
MONTHLY PENALTY	PHP1,000.00

The monthly penalty shall continue to accrue until this policy is submitted to the SEC.

5.2 Non/Late Filing of or Incomplete/Incorrect *Advisement Report on Material Related Party Transactions*:

Violation	First Offense	Second Offense		Third Offense	
		Basic Penalty	Daily Penalty	Basic Penalty	Daily Penalty
Non/Late Filing of <i>Advisement Report on Material Related Party Transactions</i>	Reprimand	PHP30,000.00	PHP200.00	PHP40,000.00	PHP400.00
Incomplete/Incorrect <i>Advisement Report on Material Related Party Transactions</i>	Reprimand	PHP10,000.00	PHP200.00	PHP20,000.00	PHP400.00

5.3 Continued non-payment of the assessed fine and/or failure to comply with the requirement within a period of 15 days after notice and hearing shall be sufficient ground for the SEC to take other appropriate action or remedies available under the Section 158 of the Revised Corporation Code of the Philippines.

5.4 Moreover, the commission of a fourth (4th) offense for the same violation is a ground for suspension/revocation of the Bank’s registration or secondary license, which shall be made after notice and hearing.

5.5 This is without prejudice to administrative penalties that may be imposed by the SEC pursuant to the provisions of the Revised Corporation Code of the Philippines, Securities Regulation Code and other related laws.

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IX. Applicability to Subsidiaries and Affiliates

The respective Board of Directors of the subsidiaries and affiliates shall adopt this Framework to the extent applicable to ensure that Groupwide implementation is observed.

X. Internal Sanctions

The Bank reserves the right, in accordance with its policy, such as but not limited to Code of Ethics, Whistleblowing, Administrative Cases, Fraud Handling, etc. to impose the necessary sanctions / actions to its directors, officers or employees who will not adhere to the requirements under this Framework.

XI. Abusive Material RPTs

1. An interested Director or Officer shall be disqualified from being a Director, Trustee or Officer of any other corporation on the basis of a final judgment rendered by a court of competent jurisdiction against the interested Director or Officer for abusive Material RPTs. The disqualification shall be for a period of at least one (1) year or more, as may be determined by the SEC.
2. The imposition of the foregoing penalties shall be without prejudice to any other administrative penalties that may be imposed by the SEC, and/or civil or criminal penalties, as may be provided by the Revised Corporation Code of the Philippines, Securities Regulation Code and other related laws.

This Framework was approved by the Board on 13 July 2016²⁰

²⁰ *All other updates were approved by the Board on 15 March 2017, and on 02 October 2019 for the SEC material RPT rules.*

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**ASEAN CG Scorecard Disclosure Requirements
for Related Party Transactions**

Part D – Disclosure and Transparency

ASEAN Guide Question / Requirements		Disclosure Document
D.3.1	Does the company disclose its policy covering the review and approval of material/significant RPTs?	Annual Report/ACGR
D.3.2	Does the company disclose the name of the related party and relationship for each material/significant RPT?	Annual Report/ACGR
D.3.3	Does the company disclose the nature and value for each material/significant RPT?	Annual Report/ACGR

x x x x

D.8.5	Does the company have a website disclosing up-to-date information on the following: Group corporate structure ²¹	Company Website
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²¹ *Conglomerate Map*

CONGLOMERATE MAP/ORGANIZATIONAL STRUCTURE ^{1\}

Name of Bank

Bank Code

Date

^{1\} Organizational structure/diagram of the conglomerate

Ownership Details/Board of Directors/Senior Officers ¹⁾

Name of Bank

Bank Code

Date

Name of Entities in the Conglomerate Structure	Shareholders ²⁾	Members of the Board of Directors	Senior Officers

¹⁾ Senior Officers shall refer to Senior Vice President positions and up

²⁾ Indicate those holding 10% or more of the voting stock

**ADVISEMENT REPORT ON
MATERIAL RELATED PARTY TRANSACTIONS**

Reporting PLC: _____

SEC Identification Number: _____

Name of Related Party: _____

Execution Date of Transaction: _____

Relationship between the Parties including financial/non-financial interest: _____

¹ Total assets shall pertain to consolidated assets if the reporting PLC is a parent company.

² The information shall include the names of directors present, names of directors who approved the Material Related Party Transactions and the corresponding voting percentage obtained.

SIGNATURES

Pursuant to the requirements of the Commission, the company has duly caused this report to be signed on its behalf by the undersigned.

(Name of Reporting PLC)

(Name of Related Party)

Name, Signature of the Corporate Secretary /
Authorized Representative³

Name, Signature of the Related Party / Authorized Representative³

³ Proof of authority must be attached to the Advisement Report.