



**Office Circular No.: 005
Series of 2022**

<p align="center">LBP LEASING AND FINANCE CORPORATION (LLFC) RELATED PARTY TRANSACTION COMMITTEE CHARTER</p>

I. OVERVIEW

The Bangko Sentral ng Pilipinas issued on December 14, 2015 BSP Circular No. 895, re: Guidelines on Related Party Transactions that directs the Board of Directors to constitute a Related Party Transactions Committee and BSP Circular No. 969, Series of 2017 re: Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions.

II. PURPOSE

This Charter is hereby created to serve as the basis for the Related Party Transaction Committee in the performance of its mandated function. The Committee shall evaluate RPTs to ensure that RPTs are at arm's length basis (the standard under which unrelated parties, each acting in his or her own best interest, would carry out a particular transaction).

III. RELATED PARTY TRANSACTIONS (RPT)

RPTs are transactions or dealings with related parties of LLFC, regardless of whether or not a price is charged. These transactions shall include, but not limited to the following:

- a. On-and-off balance sheet credit exposures and claims and write-offs;
- b. Investment and/or subscriptions for debt/equity issuances;
- c. Consulting, professional, agency and other service agreements/contracts;
- d. Purchase and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
- e. Construction arrangements/contracts;
- f. Lease arrangements/contracts;

- g. Trading and derivative transactions;
- h. Borrowings, commitments, fund sourcing and guarantees;
- i. Sale, purchase or supply of any goods or materials; and
- j. Establishment of joint venture entities.

IV. ROLE AND AUTHORITY

The Related Party Transaction Committee shall be primarily responsible for the evaluation and monitoring of transactions or dealings with related parties of LLFC, regardless of whether or not a price is charged. It shall include not only transactions that are entered into with related parties but also the outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

V. COMPOSITION

- a. The Related Party Transaction Committee shall be composed of at least three (3) members of the Board of Directors (BOD), two (2) of whom shall be independent directors, including the Chairperson. 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/she should refrain from evaluating that particular transaction.
- b. The members of the Board, vetting/approving authorities and management shall disclose to the BOD whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the LLFC. If a Committee member has conflict of interest in the transaction being evaluated, the concerned Committee member shall abstain from the evaluation and deliberation of the particular transaction, including the ¹review in the approval of endorsement to the Board of such transaction.
- c. The respective Heads of Risk Management Office, the Internal Audit Office or the Compliance Coordinator shall sit as resource persons in said Committee.

VI. MEETINGS AND RECORDS

- a. The Related Party Transaction Committee shall meet quarterly or as often as it considers necessary and appropriate. A majority of the members will constitute a quorum. The Committee Chairperson or the

¹ BSP Circular No. 895, 2015- Guidelines on RPT; Section 3.1.d. Conflict of Interest

majority of the members may call a special meeting when deemed necessary.

- b. The Chairperson shall be the presiding officer during committee meetings.
- c. Participation of Committee member may be in person or through modern technologies (teleconferencing or videoconferencing) ². Reasonable effort should be made to have all members of the Committee participate.
- d. The Committee, through the Chairperson, shall regularly report to the Board of Directors matters discussed at each meeting along with the actions taken during said meeting.
- e. The Committee shall appoint a Secretary who shall prepare the agenda for each meeting and send out the materials at least three (3) days before the meeting date. The Secretary shall prepare and safe keep the Minutes of Meetings. The LLFC Office Circular No. 023, series of 2021 – Guidelines on the Secretariat Functions of Various Committees shall be used as reference.

VII. SPECIFIC DUTIES AND RESPONSIBILITIES

- a. 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 the relationship shall be reflected in the relevant reports to the Board of Directors and/or regulators.
- b. Evaluate all material RPTs to ensure that these are not undertaken on more favorable terms to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of LLFC are misappropriated or misapplied, and to determine potential reputational risk issues that may arise as a result of or in connection with the transaction. In evaluating RPTs, the RPT Committee shall take into account, among others, the following:
 - 1. The related party's relationship to LLFC and interest in the transaction

² Section 3.3.3.a of GCG Memorandum Circular No. 2014-03 (3rd issue)

a. Attendance through teleconferencing or video conferencing in accordance with SEC Memorandum Circular No. 15, series of 2021, is allowed.

2. The material facts of the proposed RPT, including the proposed aggregate value of such transaction
 3. The benefits to LLFC of the proposed RPT
 4. The availability of other sources comparable products or services
 5. 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. LLFC 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 LLFC's internal policies shall be endorsed by the RPT Committee to the Board of Directors for approval.
- c. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to LLFC's RPT exposures and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach of managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise because of LLFC's affiliation or transactions with other related parties.
 - d. 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.
 - e. Ensure that transactions with related parties, including write-offs of exposures, are subject to periodic independent review or audit process.
 - f. Oversee the implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs including the periodic review of RPT policies and procedures.

VIII. PERFORMANCE ASSESSMENT

The Committee shall conduct annual self-assessment of the Committee's performance including its effectiveness. The LLFC Office Circular No. 21-018, series of 2021, Guidelines on the Performance Rating System (PRS) of Board-Level Committee shall be used as reference.

IX. OTHER RESPONSIBILITIES

- a. The Related Party Transaction Committee shall conduct review and assessment of the Charter at least annually and obtain the approval of the Board of Directors for any revisions thereto.

- b. The Committee shall obtain any information and/or training needed to enhance the members' understanding/competence.

X. EFFECTIVITY

This Charter shall take effect on February 24, 2022.



Michael P. Arañas
President and CEO 