

RELATED PARTY TRANSACTIONS  
COVER SHEET

Reviewing Committee	<input type="checkbox"/> Related Party Transaction Committee (PhP10,000,000.00 and above)
	<input type="checkbox"/> RPT Management Committee (below PhP10,000,000.00)
Originating Unit	
Date Submitted	

Name of Related Party															
Relationship	<div><input type="checkbox"/> DOSRI</div> <div><input type="checkbox"/> Close Family Member of the DOS</div> <div><input type="checkbox"/> Subsidiary</div> <div><input type="checkbox"/> Affiliate</div> <div><input type="checkbox"/> Corresponding Persons in Affiliated Companies</div> <div><input type="checkbox"/> Member of the Advisory Board</div> <div><input type="checkbox"/> Subsidiary of a related party</div> <div><input type="checkbox"/> Member of the YGC Conglomerate</div> <div><input type="checkbox"/> Others (please specify) _____</div> <div>For the classification of related parties, please refer to the latest Policy on Related Party Transactions.</div>														
With Interlocking Directors	<div><input type="checkbox"/> Yes.</div> <div><table><tr><th>Name of Director/s</th></tr><tr><td></td></tr><tr><td></td></tr><tr><td></td></tr></table></div> <div>If with interlocking director, please indicate % of ownership in the related party:</div> <div><table><tr><th>Name of Director</th><th>% of Ownership</th></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr></table></div> <div><input type="checkbox"/> No.</div>	Name of Director/s				Name of Director	% of Ownership								
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LOANS AND OTHER CREDIT ACCOMMODATIONS

☐ New ☐ Renewal (For renewals, please attach performance review of the account)

History/years of relationship with the Bank:

For Renewals, indicate last renewal date and expiry:

Description of Credit Facility (Terms and Conditions)	Present Credit Limit	Outstanding Balance	Proposed Credit Limit
TOTAL			

☐ With Collateral ☐ Without Collateral

Terms and Conditions (including extraordinary terms and conditions):

Pricing Method Used

For an effective price discovery mechanism, proponents may use as guide the provisions of **BIR Regulation No. 2-2013** or **“Transfer Pricing Guidelines”** in applying arm’s length principles to related party transactions to the extent applicable. Please refer to **ANNEX B** of the Policy on Related Party Transaction.

- ☐ Comparable Uncontrolled Price (CUP) Method
- ☐ Resale Price Method (RPM)
- ☐ Cost Plus Method (CPM)

- ☐ Profit Split Method (PSM)

☐Residual Profit Split Approach☐Contribution Profit Split Approach
- ☐ Transactional Net Margin Method (TNMM)
- ☐ Other pricing method \_\_\_\_\_

Potential risk that may arise as a result of or in connection with the Related Party Transaction:

Other relevant information:

Please attach documented benchmarks/comparable pricing of similarly situated unrelated transactions, where applicable. Where no comparable prices are available, proponents must resort to other price discovery mechanisms e.g. subjecting the transaction to a bidding process or securing an external expert’s fairness opinion, or must provide sufficient justification why no comparable prices can be presented.

Certifications:

1. Outsourcing Certification, if applicable

- ☐ Reviewed and approved by the Clearing House based on outsourcing policy of the Bank
- ☐ Not applicable

2. Individual and Aggregate Limits Certification

- ☐ The undersigned certifies that this RPT has not breached the individual and aggregate limits set by the Bank under the RPT Policy.

3. The undersigned certifies that the amount presented herein is below 10% of the combined assets of the RCBC Group based on the latest Audited Financial Statement of the Bank.

- ☐ Yes
- ☐ No, accompanied with fairness opinion issued by external independent party

Reminders:

1. The database of related parties and Policy on Related Party Transactions are uploaded in the Compliance Office Library.
2. Transactions for review of the RPT Committee/Management Committee must be submitted to the Secretariat a week before the scheduled meeting. Regular meeting of the RPT Committee is the Monday of the week prior to the Board Meeting. Regular meeting of the RPT Management Committee is the Tuesday after the RPT Committee meeting.
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5. Upon favorable review of the RPT Committee, Material Related Party Transactions must be submitted to the Board of Directors for approval. Please coordinate with the Office of the Corporate Secretary regarding submission of agenda items.

Submitted by:

Account Officer

(sign over printed name)

Division Head

(sign over printed name)

Group Head

(sign over printed name)

Name of Presenter/s

FOR COMMITTEE SECRETARIAT:

Action of:	<input type="checkbox"/> RPT Board Committee	<input type="checkbox"/> Endorsed for Board Approval	Comments:
		<input type="checkbox"/> Noted <input type="checkbox"/> Disapproved	
	<input type="checkbox"/> RPT Management Committee	<input type="checkbox"/> Approved <input type="checkbox"/> Noted <input type="checkbox"/> Disapproved	

RELATED PARTY TRANSACTIONS  
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Originating Unit	
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CONTRACTS OF LEASE

☐ New ☐ Renewal (For renewals, please attach performance review of the account)

History/years of relationship with the Bank:

Rationale for entering into the transaction:

Terms of the Contract:	Current	Proposed
Total Leased Area		
Price per sqm.		
Total Contract Price		
Period of Lease		
Escalation Rate		

Other Terms and Conditions:

Pricing Method Used:

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- ☐ Profit Split Method (PSM)

☐Residual Profit Split Approach

☐Contribution Profit Split Approach

- ☐ Transactional Net Margin Method (TNMM)
- ☐ Other pricing method \_\_\_\_\_

Potential risk that may arise as a result of or in connection with the Related Party Transaction:

Other relevant information:

Please attach documented benchmarks/comparable pricing of similarly situated unrelated transactions, where applicable. Where no comparable prices are available, proponents must resort to other price discovery mechanisms e.g. subjecting the transaction to a bidding process or securing an external expert’s fairness opinion, or must provide sufficient justification why no comparable prices can be presented.

Certifications:

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- ☐ Yes
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Submitted by:

Account Officer  
(sign over printed name)

Division Head  
(sign over printed name)

Group Head  
(sign over printed name)

Name of Presenter/s

FOR COMMITTEE SECRETARIAT:

Action of:	<input type="checkbox"/> RPT Board Committee	<input type="checkbox"/> Endorsed for Board Approval <input type="checkbox"/> Noted <input type="checkbox"/> Disapproved	Comments:
	<input type="checkbox"/> RPT Management Committee	<input type="checkbox"/> Approved <input type="checkbox"/> Noted <input type="checkbox"/> Disapproved	

RELATED PARTY TRANSACTIONS  
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INSURANCE CONTRACTS

☐ New ☐ Renewal (For renewals, please attach performance review of the account)

History/years of relationship with the Bank:

Rationale for entering into the transaction:

Terms of the Contract:	Current	Proposed
Period of Contract		
Coverage		
Premium		

Other Terms and Conditions:

Pricing Method Used

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☐Residual Profit Split Approach

☐Contribution Profit Split Approach
- ☐ Transactional Net Margin Method (TNMM)
- ☐ Other pricing method \_\_\_\_\_

Potential risk that may arise as a result of or in connection with the Related Party Transaction:

Other relevant information:

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Submitted by:

Account Officer  
(sign over printed name)

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(sign over printed name)

Group Head  
(sign over printed name)

Name of Presentor/s

FOR COMMITTEE SECRETARIAT:

Action of:	<input type="checkbox"/> RPT Board Committee	<input type="checkbox"/> Endorsed for Board Approval	Comments:
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OTHER CONTRACTS

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History/years of relationship with the Bank:

Rationale for entering into the transaction:

Amount of the Transaction:

Other Terms and Conditions:

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Other relevant information:

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Group Head  
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Name of Presentor/s

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	<input type="checkbox"/> RPT Management Committee	<input type="checkbox"/> Approved <input type="checkbox"/> Noted <input type="checkbox"/> Disapproved	



Consumer Loans Related Party Transaction Checklist – Individual and Corporate Borrower

Borrower:				Date:		
Co-Borrower:				Application No:		
Authorized Signatory:				Product Code:		
Address:				Industry Classification:		
Account Officer:				Referred by:		
Facility No.	Description of Credit Facility	Approved Loan amount/Present Credit limit	Outstanding Balance as of	Proposed Credit limit (if applicable)	Gross Potential Exposure	Expiry Date

I. RPT Qualification Criteria (Please check appropriate box opposite each criterion and provide remarks, as applicable)

Name of employee from YGC company:														
Position / Rank of YGC Employee	<input type="checkbox"/> RCBC Officer <input type="checkbox"/> RCBC Director <input type="checkbox"/> RCBC Stockholder	<input type="checkbox"/> Director from other YGC Institutions <input type="checkbox"/> Senior Vice President and up from other YGC institutions												
Relationship of Borrower to YGC Employee	<input type="checkbox"/> Close Family Members of Directors, Officers, and Stockholders (DOS) of ,RCBC within the second degree of consanguinity or affinity, legitimate or common-law) <input type="checkbox"/> Related Interests (RI) of Directors, Officers, and Stockholders (DOS) of RCBC <input type="checkbox"/> Subsidiary (as defined in the RCBC RAD1 Policy on RPT) <input type="checkbox"/> Affiliate ((as defined in the RCBC RAD1 Policy on RPT) <input type="checkbox"/> Corresponding Persons in Affiliated Companies (Close family members of the Directors, officers, Stockholders of affiliated companies i.e. subsidiary, affiliate, corporate related interest, any company that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank <input type="checkbox"/> Member of the Advisory Board <input type="checkbox"/> Subsidiary of a related Party <input type="checkbox"/> Member of the YGC Conglomerate <input type="checkbox"/> Other Related Parties – Individuals <input type="checkbox"/> Other Related Parties – Entities	Remarks:												
With Interlocking Directors	<input type="checkbox"/> Yes <table><tr><td colspan="2">Name of Director/s</td></tr><tr><td colspan="2"></td></tr><tr><td colspan="2"></td></tr></table> If with interlocking director, please indicate % of ownership in the related party <table><tr><td>Name of Director</td><td>% of Ownership</td></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr></table> <input type="checkbox"/> No		Name of Director/s						Name of Director	% of Ownership				
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Name of Director	% of Ownership													

II. Eligibility Criteria / Deviations (Please check appropriate box opposite each criterion and provide remarks, as applicable)

Criteria	If no, indicate deviation & provide justification
DBR: Debt Burden Ratio within guidelines?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
LTV / LCR: Loan to Value Ratio / Loan to Collateral Ratio within guidelines?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
COLLATERAL: Collateral acceptability within guidelines?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
TERM: Loan term within guidelines?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
APPRAISAL: Appraisal validity within guidelines?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Age of borrower within guidelines?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Length of stay in rented residence within guidelines? (Personal Loans only)	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Regular employee?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Meets required employment tenure requirement?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Number of years in business operation / professional practice within guidelines?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
File Check Generally Satisfactory (GENSAT)? – excluding FC GENSAT due to technical reasons	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Sum of remaining economic life of collateral and term of loan within guidelines? (Housing Loans only)	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Findings based on CI rating (i.e., verified OK) within guidelines?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Employed in a non-exclusion country?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Most recent fiscal year performance within guidelines? (applies to self-employed)	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Employer / Company is or more than three (3) years in operation? (Personal Loans only)	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Not included in most risk industry? (applies to self-employed business)	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Existing PL / SL term paid?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Credit / Deposit record condition at verification stage within guidelines?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA
Credit score within guidelines (low or medium)?	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA

III. Checkings Conducted (Please check appropriate box opposite each criterion and provide remarks, as applicable)

A. For Individual Borrowers

Checking				Remarks / Justification
CMAP / NFIS	<input type="checkbox"/> Negative Match	<input type="checkbox"/> Positive Match	<input type="checkbox"/> Possible Match	
Credit Checking	<input type="checkbox"/> Favorable	<input type="checkbox"/> Unfavorable	<input type="checkbox"/> Unverified	
Bank Checking	<input type="checkbox"/> Favorable	<input type="checkbox"/> Unfavorable	<input type="checkbox"/> Unverified	
Employment Checking (for employed)	<input type="checkbox"/> Favorable	<input type="checkbox"/> Unfavorable	<input type="checkbox"/> Unverified	
Business Checking (for self- employed)	<input type="checkbox"/> Favorable	<input type="checkbox"/> Unfavorable	<input type="checkbox"/> Unverified	

B. For Corporate Borrowers (as applicable)

Name of Shareholder / Key Officer	% Share / Position	CMAP / NFIS	Remarks / Justification
		<input type="checkbox"/> Negative Match <input type="checkbox"/> Positive Match <input type="checkbox"/> Possible Match	
		<input type="checkbox"/> Negative Match <input type="checkbox"/> Positive Match <input type="checkbox"/> Possible Match	
		<input type="checkbox"/> Negative Match <input type="checkbox"/> Positive Match <input type="checkbox"/> Possible Match	
		<input type="checkbox"/> Negative Match <input type="checkbox"/> Positive Match <input type="checkbox"/> Possible Match	

IV. Description of Securities / Proposed Collateral (Please provide details specific for each loan product, as applicable)

V. Pricing

Standard Interest Rate:	Applied Interest Rate:	Justification:
		Non-RPT accounts provided with the same applied interest rate (at least two):

(Please provide justification if Interest Rate is lower than standard) Please attach documented benchmarks/comparable pricing of similarly situated unrelated transactions where applicable. Where no comparable prices are available, proponents must resort to their price discovery mechanisms e.g. subjecting the transaction to a bidding process or securing an external experts fairness opinion, or must provide sufficient justification why no comparable prices can be presented.

VI. Potential Risks that may arise as a result of or in connection with the Related Party Transaction

(Please state all the deviations / disclosures including their corresponding justifications and risk mitigations)

VII. Certifications:

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- ☐ Yes
- ☐ No, accompanied with fairness opinion issued by external independent party

VIII. Other relevant information

Reviewed by:	Concurred by:	Approved by:
Credit Officer / Section Head / Dept. Head	Division Head	Segment Head

Name of Presenter/s:

FOR COMMITTEE SECRETARIAT:

Action of:	<input type="checkbox"/> Board Committee	<input type="checkbox"/> Approved & Endorsed for Board Approval <input type="checkbox"/> Noted <input type="checkbox"/> Disapproved	Comments:
	<input type="checkbox"/> Related Party Transaction Management Committee	<input type="checkbox"/> Approved <input type="checkbox"/> Noted <input type="checkbox"/> Disapproved	

REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
**BUREAU OF INTERNAL REVENUE**

Quezon City

January 23, 2013

**REVENUE REGULATIONS NO. 2-2013**

**SUBJECT : Transfer Pricing Guidelines**

**TO : All Internal Revenue Officers and Others Concerned**

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**BACKGROUND.** – The dramatic increase in globalization of trade has also led to harmful tax practices that have resulted in tremendous losses of tax revenues for governments. The most significant international tax issue emerging from globalization confronting tax administrations worldwide is transfer pricing.

Transfer pricing is generally defined as the pricing of cross-border, intra-firm transactions between related parties or associated enterprises.<sup>1</sup> Typically, a transfer price occurs between a taxpayer of a country with high income taxes and a related or associated enterprise of a country with low income taxes. In the Philippines, “intra-firm / inter-related” transactions account for a substantial portion of the transfer of goods and services, however, the revenue collection from related-party groups continue to go on a downtrend.

The revenues lost from intra-related transactions can be attributed to the fact that related companies are more interested in their net income as a whole (rather than as individual corporations), as such there is a desire to minimize tax payments by taking advantage of the loopholes in our tax system.

While transfer pricing issue typically occurs in cross-border transactions, it can also occur in domestic transactions. One context where transfer pricing issue occurs domestically is where one associated enterprise, entitled to income tax exemptions, is being used to allocate income away from a company subject to regular income taxes. In the Philippines, there

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<sup>1</sup> UN Practical Manual on Transfer Pricing for Developing Countries

is a domestic transfer pricing issue when income are shifted in favor of a related company with special tax privileges such as Board of Investments (BOI) Incentives and Philippine Economic Zone Authority (PEZA) fiscal incentives or when expenses of a related company with special tax privileges are shifted to a related company subject to regular income taxes or in other circumstances, when income and/or expenses are shifted to a related party in order to minimize tax liabilities

**SECTION 1. OBJECTIVE AND SCOPE.** – Pursuant to the provision of Section 244 in relation to Section 50 of the National Internal Revenue Code of 1997, as amended (“Tax Code”) these regulations are hereby promulgated to:

- a. implement the authority of the Commissioner of Internal Revenue (“Commissioner”) to review controlled transactions among associated enterprises and to allocate or distribute their income and deductions in order to determine the appropriate revenues and taxable income of the associated enterprises involved in controlled transactions;
- b. prescribe guidelines in determining the appropriate revenues and taxable income of the parties in the controlled transaction by providing for the methods of establishing an arm’s length price ; and
- c. require the maintenance or safekeeping of the documents necessary for the taxpayer to prove that efforts were exerted to determine the arm’s length price or standard in measuring transactions among associated enterprises.

These Regulations apply to:

- (1) cross-border transactions between associated enterprises; and
- (2) domestic transactions between associated enterprises.

**SECTION 2. PURPOSE OF THE REGULATIONS.** – These Regulations seek to provide guidelines in applying the arm’s length principle for cross-border and domestic transactions between associated enterprises.

These guidelines are largely based on the arm’s length methodologies as set out under the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines.

**SECTION 3. AUTHORITY OF THE COMMISSIONER TO ALLOCATE INCOME AND DEDUCTIONS.** – Pursuant to Section 50 of the Tax Code, the Commissioner is authorized to distribute, apportion or allocate gross income or deductions between or among two or more organizations, trades or businesses (whether or not incorporated and whether or not organized in the Philippines) owned or controlled directly or indirectly by the same interests, if he determines that such distribution, apportionment or allocation is necessary in order to clearly reflect the income of any such organization, trade or business.

Thus, the Commissioner is authorized to make transfer pricing adjustments, in line with the purpose of Section 50 to ensure that taxpayers clearly reflect income attributable to controlled transactions and to prevent the avoidance of taxes with respect to such transactions.

**SECTION 4. DEFINITION OF TERMS.** – As used in these Regulations, the following terms shall have the following meaning:

**Comparable transaction.** A transaction that is comparable to the controlled transaction under examination taking into consideration factors such as the nature of the property or services provided between the parties, functional analysis of the transactions and parties, contractual terms, and economic conditions.

**Comparable uncontrolled transaction.** A comparable uncontrolled transaction is a transaction between two independent parties that is comparable to the controlled transactions under examination. It can be either a comparable transaction between one party to the controlled transaction and an independent party (“internal comparable”) or between two independent parties, neither of which is a party to the controlled transaction (“external comparable”)

**Associated enterprises.** Two or more enterprises are associated if one participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. These are also referred to as related parties.

**Control** refers to any kind of control, direct or indirect, whether or not legally enforceable, and however exercisable or exercised. Moreover, control shall be deemed present if income or deductions have been arbitrarily shifted between two or more enterprises.

**Controlled transaction** means any transaction between two or more associated enterprises.

**Independent enterprises or parties.** Two enterprises are independent enterprises with respect to each other if they are not associated enterprises.

**Advance Pricing Arrangement (“APA”)** is an arrangement that determines, in advance of controlled transactions, an appropriate set of criteria (e.g. method, comparables and appropriate adjustments thereto, critical assumptions as to future events) for the determination of the transfer pricing for those transactions over a fixed period of time.

**Mutual Agreement Procedure (MAP)** is a means through which tax administrations consult to resolve disputes regarding the application of double tax conventions. This procedure, described in Article 25 of the OECD Model Tax Convention, can be used to eliminate double taxation that could arise from a transfer pricing adjustment.

**SECTION 5. ARM’S LENGTH PRINCIPLE.**– The Bureau of Internal Revenue (the “Bureau”) hereby adopts and the use of arm’s length principle as the most appropriate standard to determine transfer prices of related parties.

**a. Background and Concept:**

The arm’s length principle is the internationally recognized standard for transfer pricing between associated enterprises. Paragraph 1 of Article 9 of Philippine tax treaties is virtually identical to paragraph 1 of Article 9 of the OECD Model Tax Convention on Income and Capital, which is considered, in the international arena, as the authoritative statement of the arm’s length principle.

Paragraph 2 of Article 7 (Business Profits) of the OECD Model Tax Convention on Income and on Capital specifies that, when attributing the profits to a permanent establishment, the permanent establishment should be considered as ‘a distinct and separate enterprise engaged in the same or similar activities and under the same or similar conditions’. This corresponds with the application of the arm’s length principle specified in paragraph 1 of Article 9 (Associated Enterprises) of the OECD Model Tax Convention on Income and on Capital.

The arm’s length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party. It is founded on the premise that

where market forces drive the terms and conditions agreed in an independent party transaction, the pricing of the transaction would reflect the true economic value of the contributions made by each entity in that transaction. Essentially, this means that if two associated enterprises derive profits at levels above or below the comparable market level solely by reason of the special relationship between them, the profits will be deemed as non-arm's length. In such a case, tax authorities that adopt the arm's length principle can make the necessary adjustments to the taxable profits of the related parties in their jurisdictions so as to reflect the true value that would otherwise be derived on an arm's length basis.

**b. Guidance on the Application of the Arm's Length Principle:**

The application of arm's length principle would, first and foremost, involve the identification of comparable situation(s) or transaction(s) undertaken by independent parties against which the associated enterprise transaction or margin is to be benchmarked. This step is commonly known as "comparability analysis". It entails an analysis of the similarities and differences in the conditions and characteristics that are found in the associated enterprise transaction with those in an independent party transaction. Once the impact of these similarities or differences have on the transfer price have been determined, the arm's length price/margin (or a range) can then be established using an appropriate transfer pricing method.

In the application of the arm's length principle the following 3-step approach, discussed in detail in Sections 6, 7, and 8 of these Regulations, may be observed.

**Step 1:** Conduct a comparability analysis.

**Step 2:** Identify the tested party and the appropriate transfer pricing method.

**Step 3:** Determine the arm's length results.

These steps should be applied in line with the key objective of transfer pricing analysis to present a logical and persuasive basis to demonstrate that transfer prices set between associated enterprises conform to the arm's length principle.

## **SECTION 6. COMPARABILITY ANALYSIS.**

### **a. The Concept of Comparability**

The arm's length principle is based on a comparison of the prices or margins adopted or obtained by related parties with those adopted or obtained by independent parties engaged in similar transactions. For such price or margin comparisons to be meaningful, all economically relevant characteristics of the situations being compared should be sufficiently similar so that:

- (1) none of the differences (if any) between the situations being compared can materially affect the price or margin being compared, or
- (2) reasonably accurate adjustments can be made to eliminate the effect of any such differences.

### **b. Factors Affecting Comparability**

A comparability analysis should examine the comparability of the transactions in 3 aspects:

#### **(1) Characteristics of Goods, Services or Intangible Properties**

- (i) The specific characteristics of goods, services or intangible properties play a significant part in determining their values in the open market. For instance, a product with better quality and more features would, *ceteris paribus*, fetch a higher selling price. Such product or service differentiation affects the price or value of the product or service. Hence, the nature and features of the goods, intangible properties or services transacted between related parties and those between independent parties must be examined carefully. The similarities and differences (which would influence the value of the goods, services or intangible properties) should be identified.
- (ii) Characteristics to be examined include, but are not limited to, the following:



- in the case of transfer of goods: the physical features, the quality and reliability, and the availability and volume of supply of the goods;
  - in the case of provision of services: the nature and extent of the services; and
  - in the case of intangible property: the form of transaction, the type of intangible, the duration and degree of protection, and the anticipated benefits from the use of the property.
- (iii) Similarities in the actual characteristics of the product, intangible or service, are most critical when one needs to compare prices of related party transactions against independent ones, such as when the Comparable Uncontrolled Pricing (CUP) method is adopted as the transfer pricing method. On the other hand, comparisons of profit margins (used in methods other than CUP) may be less sensitive to the features and characteristics of the product or service in question, as the margins generally correlate more significantly with the functions performed, risks borne and assets used by the entity.

## **(2) Analysis of Functions, Risks and Assets**

- (i) Economic theory purports that the level of return derived by an entity should be directly correlated to the functions performed, the assets used and risks assumed. For instance, an entity selling a product with warranty should earn a higher return compared to another entity selling the same product without the provision of warranty. The difference in margin is due to the additional function performed and risk borne by the first entity. Likewise, a product with a reputable branding is expected to fetch a higher return compared to that of a similar product without the branding, due to the additional asset (in this case, trademark) employed in enhancing the value of the product.
- (ii) Hence, a crucial step in comparability analysis must entail a comparison of the economically significant functions performed, risks assumed and assets employed by the related party with those by the

independent party (which has been selected as the party against which the associated enterprise's margin or transactions are to be benchmarked). This is typically known as conducting a "functional analysis".

- (iii) The functions that should be compared include (but are not limited to) design, research and development, manufacturing, distribution, sales, marketing, logistics, advertising, financing, etc.
- (iv) It is also relevant and useful, when identifying and comparing the functions performed, to consider the assets that are employed or to be employed. This analysis should consider the type of assets used, such as plant and equipment, valuable intangibles, etc. and the nature of the assets used (i.e., the age, market value, location, availability of intellectual property protections), etc.
- (v) An appraisal of risks is also important in determining arm's length prices/margins. The possible risks assumed that should be considered in the functional analysis include market risks, risks of change in cost, price or stock, risks relating to the success or failure of R&D, financial risks such as changes in the foreign exchange and interest rates, credit risks, etc.
- (vi) In practice, one cannot be expected to compare all functions, risks and assets employed. Hence, it must be emphasized that only functions, risk and assets that are economically significant in determining the value of transactions or margins of entities should be identified and compared.

### **(3) Commercial and Economic Circumstances**

- (i) Prices may vary across different markets even for transactions involving the same property or services. In order to make meaningful comparisons of prices or margins between entities/transactions, the markets and economic conditions in which the entities operate or where the transactions are undertaken should be comparable. the economic circumstances that may be relevant in determining market comparability include

the availability of substitute goods or services, geographic location, the market size, the extent of competition in the markets, consumer purchasing power, the level of the market at which the enterprises operate (i.e., wholesale or retail), etc.

- (ii) Government policies and regulations (such as price controls, national insurance, etc.) may have an impact on prices and margins. Hence, the effects of these regulations should also be examined as part of the examination for comparability of the market and economic conditions.
- (iii) Business strategies should also be examined in determining comparability for transfer pricing purposes. Business strategies would take into account many aspects of an enterprise, such as innovation and new product development, degree of diversification, risk aversion, assessment of political changes and other factors bearing upon the daily conduct of business.
- (iv) An entity may embark on business strategies of temporarily charging a lower price for its product compared to similar products in the market or incurring higher expenses in the short run (hence resulting in lower profit levels). Such strategies are commonly used for market penetration and market share expansion or defense. The key issue with respect to business strategies that temporarily reduce profits in anticipation of higher long-term profit is whether the adoption and outcome of such strategies produce an arm's length result. Hence, a claim that such strategies have been adopted ought to be demonstrated with evidence that that an independent party would have been prepared to sacrifice profitability for a similar period under similar economic circumstances and competitive conditions, so that a higher long-term profit can be realized.

## **SECTION 7. IDENTIFICATION OF THE TESTED PARTY AND THE APPROPRIATE TRANSFER PRICING METHOD.**

### **a. Determination of the Tested Party**

The tested party is the entity to which a transfer pricing method can be most reliably applied to and from which the most reliable comparables can be found. For an entity to become a tested party, the Bureau requires sufficient and verifiable information on such entity.

**b. Selection and application of Transfer Pricing Methodologies (TPM)**

- (1) The specific methods to be used in determining the arm's length price are discussed in Section 10 of these Regulations.
- (2) The selection of a transfer pricing method is aimed at finding the most appropriate method for a particular case. Accordingly, the method that provides the most reliable measure of an arm's length result shall be used. For this purpose, the selection process should take into account the following:
  - (i) the respective strengths and weaknesses of each of the transfer pricing methods;
  - (ii) the appropriateness of the method considered in view of the nature of the controlled transaction, determined in particular through a functional analysis;
  - (iii) the availability of reliable information (in particular on uncontrolled comparables) in order to apply the selected method and/or other methods; and
  - (iv) the degree of comparability between controlled and uncontrolled transactions, including the reliability of comparability adjustments that may be needed to eliminate material differences between them.
- (3) The Bureau does not have a specific preference for any one method. Instead, the TPM that produce the most reliable results, taking into account the quality of available data and the degree of accuracy of adjustments, should be utilized.
- (4) In exceptional circumstances where there may not be comparable transactions or sufficient data to apply the above-described methods the Bureau may use the following approaches to verify whether the controlled transactions comply with the arm's length principle:

- (i) Extension of the transfer pricing methods. The comparable may be with enterprises in another industry segment or group of segments; and
  - (ii) Use of a combination or mixture of the transfer pricing methods or other methods or approaches.
- (5) In all cases, taxpayers should be able to explain why a specific TPM is selected or used in recording controlled transactions through proper documentation.

**c. Selection of Profit Level Indicator (PLI)**

- (1) In applying the TPM, due consideration must be given to the choice of PLI which measures the relationship between profits and sales, costs incurred or assets employed. The use of an appropriate PLI ensures better accuracy in the determination of the arm's length price of a controlled transaction. PLI is presented in the form of a generally recognized or utilized financial ratio. The selection of an appropriate PLI depends on several factors, including:
- (i) characterization of the business;
  - (ii) availability of comparable data; and
  - (iii) the extent to which the PLI is likely to produce a reliable measure of arm's length profit.
- (2) Commonly used PLI include:
- (i) Return on costs: cost plus margin and net cost plus margin.
  - (ii) Return on sales: gross margin and operating margin.
  - (iii) Return on capital employed: return on operating assets.

**SECTION 8. DETERMINATION OF THE ARM'S LENGTH RESULTS. -**

Once the appropriate transfer pricing method has been identified, such is applied on the data of independent party transactions to arrive at the arm's length result.

In some cases, it will be possible to apply the arm's length principle to arrive at a single figure or specific ratio (e.g. price or margin) that is the most reliable to establish whether the conditions of a transaction are arm's length. However, it is generally difficult to arrive at a specific ratio or range of deviation that may be considered as arm's length. More likely, the transfer pricing analysis would lead to a range of ratios. Hence, the use of ranges to determine an arm's length range shall be applied, provided that the comparables are reliable.

- a. If the relevant condition of the controlled transaction (i.e. price or margin) is within the arm's length range, no adjustment should be made. If the relevant condition of the controlled transaction (e.g. price or margin) falls outside the arm's length range asserted by the Bureau, the taxpayer should present proof or substantiation that the conditions of the controlled transaction satisfy the arm's length principle, and that the result falls within the arm's length range (i.e. that the arm's length range is different from the one asserted by the tax administration). If the taxpayer is unable to establish this fact, the Bureau must determine the point within the arm's length range to which it will adjust the condition of the controlled transaction.
- b. In determining this point, where the range comprises results of relatively equal and high reliability, it could be argued that any point in the range satisfies the arm's length principle. Where comparability defects remain, it may be appropriate to use measures of central tendency to determine this point (for instance the median, the mean or weighted averages, etc., depending on the specific characteristics of the data set), in order to minimise the risk of error due to unknown or unquantifiable remaining comparability defects.

**SECTION 9. COMPARABILITY ADJUSTMENT.** - Differences between the transaction of the comparables and that of the tested party must be identified and adjusted for, in order for the comparables to be useful as basis for determining the arm's length price. Comparability adjustments include accounting adjustments and function/risk adjustments.

- a. Comparability adjustments are intended to eliminate the effects of differences that may exist between situations being compared and that which could materially affect the condition being examined in the methodology (e.g. price or margin). These should not be performed to correct differences that have no material effect on the comparison, as these adjustments are neither routine nor mandatory in a comparability analysis. When proposing a

comparability adjustment, a resultant improvement or increase in the accuracy in the comparability should be demonstrated.

- b. The following adjustments should be avoided as they do not improve comparability:
- (1) adjustments that are questionable when the basis for comparability criteria is only broadly satisfied;
  - (2) excessive adjustments or adjustments that too greatly affect the comparable as such indicates that the third party being adjusted is in actually not sufficiently comparable;
  - (3) adjustments on differences that do not materially affect the comparability;
  - (4) highly subjective adjustments, such as on the difference in product quality.

**SECTION 10. ARM'S LENGTH PRICING METHODOLOGIES.<sup>2</sup>** – In determining the arm's length result, the most appropriate of the following methods may be used.

- a. **Comparable Uncontrolled Price (CUP) Method** – The CUP Method evaluates whether the amount charged in a controlled transaction is at arm's length by reference to the amount charged in a comparable uncontrolled transaction in comparable circumstances. Any difference between the two prices may indicate that the conditions of the commercial and financial relations of the associated enterprises are not arm's length, and that the price in the uncontrolled transaction may need to be substituted for the price in the controlled transaction.

The use of the CUP Method to determine transfer price entails identification of all the differences between the product or service of the associated enterprise and that of the independent party. If these differences have a material effect on the price, adjustment of the price of products sold/services rendered by the independent party to reflect these differences shall be made to arrive at the arm's length price. A comparability analysis under the CUP Method shall take into account the following:

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<sup>2</sup> For further guidance and examples, please refer to the Organisation for Economic Cooperation and Development (OECD) Transfer Pricing Guidelines.

- (1) Product characteristics such as physical features and quality;
- (2) If the product is in the form of services, the nature and extent of such services provided;
- (3) Whether the goods sold are compared at the same points in the supply or production chain;
- (4) Product differentiation in the form of patented features such as trademarks, design, etc.;
- (5) Volume of sales if it has an effect on price;
- (6) Timing of sale if it is affected by seasonal fluctuations or other changes in market conditions;
- (7) Whether cost of transport, packaging, marketing, advertising, and warranty are included in the deal;
- (8) Whether the products are sold in places where the economic conditions are the same; and
- (9) Whether a business strategy is adopted in the controlled transaction that would produce material difference on the price of the controlled transaction as against the price in an uncontrolled transaction.

**b. Resale Price Method (RPM)** - RPM is applied where a product that has been purchased from a related party is resold to an independent party. Essentially, it seeks to value the functions performed by the reseller of a product. The resale price method evaluates whether the amount charged in a controlled transaction is at arm's length by reference to the gross profit margin realized in comparable uncontrolled transactions. This method is generally appropriate where the final transaction is made with an independent party. The usefulness of the method largely depends on how much added value or alteration the reseller has done on the product before it is resold, or the time lapse between purchase and onward sale. Thus, RPM is most appropriate in a situation where the reseller adds relatively little value to the properties. The greater the value added to the properties by the reseller, for example, through complicated processing or assembly with other products or, the longer the time lapse – to the extent that market conditions might have changed – before it is resold or, when the reseller



contributes substantially to the creation or maintenance of an intangible property that is attached to the product, such as trademarks or tradenames, the more difficult it is to use RPM to arrive at the arm's length price.

The starting point in RPM is the price (the resale price) at which a product that has been purchased in a controlled sale is then resold to an independent third party (uncontrolled resale). This price (the resale price) is then reduced by an appropriate gross margin (the resale price margin) representing the amount out of which the reseller would seek to cover its selling and other operating expenses and, in the light of functions performed (taking into account assets used and risks assumed), make an appropriate profit. An arm's length price for the original transfer of property between the associated enterprises (controlled transaction) is obtained after subtracting the gross margin (resale price margin) from the resale price, and adjusting for other costs associated with the purchase of the product, such as customs duties.

The following are factors which may influence the resale price margin and other considerations when performing a comparability analysis for purposes of the resale price method:

- (1) Functions or level of activities performed by the reseller and the risks undertaken (e.g., whether the reseller is merely a forwarding agent or, a distributor who assumes full responsibility for marketing and advertising the product by risking its own resources in these activities);
- (2) Whether similar assets are employed in the controlled and uncontrolled transactions, (e.g., a developed distribution network);
- (3) Although broader product differences are allowed as compared to the CUP method, product similarities are still significant to some extent particularly when there is a high value or unique intangible attached to the product;
- (4) If the resale price margin used is that of an independent enterprise in a comparable transaction, differences in the way business is managed may have an impact on profitability;
- (5) The time lapse between original purchase and resale of the product as a longer time lapse may give rise to changes in the market, exchange rates, costs, etc.;

- (6) Whether the reseller is given exclusive rights to resell the products;
- (7) Differences in accounting practices where adjustments must be made to ensure that the components of costs in arriving at gross margins in the controlled and uncontrolled transactions are the same;
- (8) Whether cost of transport, packaging, marketing, advertising, and warranty are included in the deal;
- (9) Whether the products are sold in places where the economic conditions are the same; and
- (10) Whether a business strategy is adopted in the controlled transaction that would produce material difference on the resale gross margin of the controlled transaction as against the resale gross margin in an uncontrolled transaction.

As gross profit margins represent the gross compensation (after cost of sales) for specific functions performed, assets used and risks assumed, product differences are less critical than under the CUP Method. Therefore, where the related and independent party transactions are comparable in all aspects except for the product itself, RPM might produce a more reliable measure of arm's length conditions than the CUP Method. Nonetheless, it can be expected that the more comparable the products, the more likely it is that the RPM will produce better results.

- c. **Cost Plus Method (CPM)** - CPM focuses on the gross mark-up obtained by a supplier who transfers property or provides services to a related purchaser. Essentially, the method attempts to value the functions performed by the supplier of the property or services. CPM is most useful where semi-finished goods are sold between associated enterprises or where the controlled transaction involves the provision of services.

CPM indirectly measures whether the price for the property or service in the controlled transaction is an arm's length price by assessing whether the mark-up on the costs incurred by the supplier of the property or service in the controlled transaction meets the arm's length standard. This method is often useful in cases involving the manufacture, assembly, or other production of

goods that are sold to related parties or where controlled transaction involves the provision of intra-group services.

The starting point in CPM is the cost incurred by the supplier of property or services in a controlled transaction for property transferred or services provided to a related purchaser. An appropriate mark-up is added to this cost to find the price that the supplier should be charging the buyer.

The cost base used in determining costs and the accounting policies should be consistent and comparable between the controlled and uncontrolled transaction, and over time in relation to the particular enterprise. The costs referred to in CPM are the aggregation of direct and indirect costs of production.

Comparability, when applying CPM, should take into account the similarity of functions performed, assets used and risks assumed, contractual terms, market conditions and business strategies as well as any adjustments made to account for the effects of any differences in the aforementioned factors between the controlled and uncontrolled transactions.

A comparability analysis under CPM shall take into account the following:

- (1) Functions or level of activities performed by the seller and the risks undertaken;
- (2) Whether similar assets are employed in the controlled and uncontrolled transactions;
- (3) Although broader product differences are allowed as compared to the CUP method, product similarities are still significant to some extent;
- (4) If the gross margin used is that of an independent enterprise in a comparable transaction, differences in the way business is managed may have an impact on profitability;
- (5) Differences in accounting practices where adjustments must be made to ensure that the components of costs in arriving at gross margins in the controlled and uncontrolled transactions are the same;
- (6) Whether cost of transport, packaging, marketing, advertising, and warranty are included in the deal;

- (7) Whether the products are sold in places where the economic conditions are the same; and
- (8) Whether a business strategy is adopted in the controlled transaction that would produce material difference on the cost plus mark-up of the controlled transaction as against the cost plus mark-up in an uncontrolled transaction.

As in RPM, fewer adjustments may be necessary to account for product differences under CPM than the CUP Method, and it may be appropriate to focus on other factors of comparability (such as the functions performed and economic circumstances). Where the associated enterprise and independent party transactions are not comparable in all aspects and the differences have a material effect on the margin, taxpayers are expected to make appropriate adjustments to eliminate the effects of these differences.

- d. **Profit Split Method (PSM).** PSM seeks to eliminate the effect on profits of special conditions made or imposed in a controlled transaction (or in controlled transactions that are appropriate to aggregate) by determining the division of profits (or losses) that independent enterprises would have expected to realize from engaging in the transaction or transactions.

This method provides an alternative in cases where no comparable transactions between independent parties can be identified. This is true normally in a situation where transactions are very interrelated that they cannot be evaluated separately, or in situations involving a unique intangible. The method is based on the concept that profits earned in a controlled transaction should be equitably allocated among associated enterprises involved in the transaction(s) on an economically valid basis that approximates the allocation of profits that would have been anticipated and reflected in an agreement made at arm's length.

Generally, the profit to be split is the operating profit, but it may be appropriate to carry out a split of the gross profit and then deduct the expenses incurred by or attributable to each relevant party.

The allocation of profit or loss under the profit split method shall be made in accordance with the following approaches:

- (1) **Residual Profit Split Approach.** –The combined profits from the controlled transactions under examination are split in two stages.
- (i) In the first stage, each participant is allocated sufficient profit to provide it with a basic return appropriate for the type of transactions in which it is engaged. Ordinarily, this basic return would be determined by reference to the market return achieved for similar types of transactions by independent parties. Thus, the basic return would generally account for the value, with reference to comparable independent market data, of the contribution or functions performed by each party and not account for the return that would be generated by any unique and valuable assets possessed by the participants.
  - (ii) In the second stage, any residual profit (or loss) remaining after the first stage division would be allocated among the parties based on an analysis of the facts and circumstances that might indicate how this residual would have been divided between independent parties (i.e. taking into consideration the value of unique assets used by the parties, usually intangible assets). The remaining profit which is attributable to such unique assets is allocated between the parties based on the relative contributions of the parties to the creation of such assets, taking into consideration how independent parties would have divided such residual profits in similar circumstances.
- (2) **Contribution Profit Split Approach.**– The combined profits, which are the total profits from the controlled transactions under examination, are divided between the associated enterprises in a single stage based upon the parties' relative contribution to the profit or the relative value of the functions performed by each of the associated enterprises participating in the controlled transactions, supplemented as much as possible by external market data that indicate how independent enterprises would have divided profits in similar circumstances.

- e. **Transactional Net Margin Method (TNMM)** – TNMM operates in a manner similar to the cost plus and resale price methods in the sense that it uses the margin approach. This method examines the net profit margin relative to an appropriate base such as costs, sales or assets attained by the member of a group of controlled taxpayers from a controlled transaction.

TNMM compares the net profit margins attained by an entity from a related party transaction to those attained by the same entity in uncontrolled transactions or, by comparable independent entities involved in similar transactions, relative to some appropriate base such as costs, sales, or assets.

In short, TNMM evaluates whether the amount charged in a controlled transaction is arm's length by reference to the operating profit earned in comparable uncontrolled transactions.

Being a transactional profit method that is typically applied to only one of the parties involved in the transaction, the TNMM is closely aligned to the resale price and cost plus methods

This similarity means that this method requires a level of comparability similar to that required for the application of the two traditional transaction methods (the resale price method, and the cost plus method).

The primary difference between TNMM and RPM or CPM is that the former focuses on the net margin instead of the gross margin of a transaction. However, one of the weaknesses of using net margin as the basis for comparison is that it can be influenced by many factors that either do not have an effect, or have a less substantial or direct effect, on price or gross margins. Examples of such factors include the efficiency of plant and machinery used, management and personnel capabilities, competitive position, etc. Unless reliable and accurate adjustments can be made to account for these differences, TNMM may not produce reliable measures of the arm's length net margins.

TNMM is usually appropriate to use when the gross profit of the business is not easy to determine such that either CPM, in case of a manufacturer/service-provider, or RPM, in case of a distributor, cannot be used. Since the net margin figure is always available, TNMM may be used instead, applying the same formula as those for CPM (for manufacturer/service provider) or RPM (for distributor) but rather using net margin in lieu of the gross margin/profit.

**SECTION 11. ADVANCE PRICING ARRANGEMENTS and MUTUAL AGREEMENT PROCEDURE.** – An Advance Pricing Arrangement (APA) is a facility available to taxpayers who are engaged in cross-border transactions. It is an agreement entered into between the taxpayer and the Bureau to determine in advance an appropriate set of criteria (e.g. method, comparables and appropriate adjustments thereto) to ascertain the transfer prices of controlled transactions over a fixed period of time. The purpose of an APA is to reduce the risk of transfer pricing examination and double taxation.

There are two kinds of APA: (i) Unilateral APA; and (ii) Bilateral or Multilateral APA. A unilateral APA is an agreement involving only the taxpayer and BIR, while a bilateral/multilateral APA is an agreement involving Philippines and one or more of its treaty partners. A Bilateral or Multilateral APA is authorized under the Mutual Agreement Procedure (MAP) Article of the 37 Philippine tax treaties.

It is not a mandatory requirement for taxpayers to avail of an APA for their controlled transactions. If a taxpayer avails of an APA, it may choose freely between a unilateral and bilateral/multilateral APA. If a taxpayer does not choose to enter into an APA and its transactions are subject later on to transfer pricing adjustments, it may still invoke the MAP Article to resolve double taxation issues.

The Philippine tax treaties' article on MAP provides a mechanism for the Philippine competent authority to mutually arrive at satisfactory solution with the competent authority of the treaty partner to eliminate double taxation issues arising from transfer pricing adjustments.

The Bureau shall issue separate guidelines on the application of APA and MAP processes.

**SECTION 12. DOCUMENTATION.**– Taxpayers must demonstrate that their transfer prices are consistent with the arm's length principle. The main purpose of keeping adequate documentation is for taxpayers to be able to (i) defend their transfer pricing analysis, (ii) prevent transfer pricing adjustments arising from tax examinations, and (iii) support their applications for MAP. Taxpayers who have not prepared adequate documentation may find their application for MAP rejected or that the transfer pricing issue would be much more difficult to resolve.

- a. **Retention Requirement** - The BIR does not require transfer pricing documents to be submitted when the tax returns are filed. However,

such documents should be retained by the taxpayers and submitted to BIR when required or requested to do so.

- b. **Retention Period** - In general, transfer pricing documents must be retained preserved within the period specifically provided in the Tax Code as the retention period, unless a different period is otherwise legally provided. However, it is to the best interest of the taxpayer to maintain documentation for purposes of MAP and possible transfer pricing examination.
- c. **Contemporaneousness** - The transfer pricing documents must be contemporaneous. It is contemporaneous if it exists or is brought into existence at the time the associated enterprises develop or implement any arrangement that might raise transfer pricing issues or review these arrangements when preparing tax returns.
- d. **Documentation Details** – the details of transfer pricing documents include, but are not limited to, the following:
  - (1) Organizational structure
  - (2) Nature of the business/industry and market conditions
  - (3) Controlled transactions
  - (4) Assumptions, strategies, policies
  - (5) Cost contribution arrangements (CCA)
  - (6) Comparability, functional and risk analysis
  - (7) Selection of the transfer pricing method
  - (8) Application of the transfer pricing method
  - (9) Background documents
  - (10) Index to documents

**SECTION 13. PENALTIES.**– The provisions of the Tax Code and other applicable laws regarding the imposition of penalties and other appropriate sanctions shall be applied to any person who fails to comply with or violates the provisions and requirements of these regulations.



**SECTION 14. TRANSITORY PROVISION.**— Transactions entered into prior to the effectivity of these Regulations shall be governed by the laws and other administrative issuances prevailing at the time the controlled transactions were entered into.

**SECTION 15. SEPARABILITY CLAUSE.**— If any part or provision of these Regulations shall be held to be unconstitutional or invalid, other provisions hereof which are not affected thereby shall continue to be in full force and effect.

**SECTION 16. REPEALING CLAUSE.**— All existing rules, regulations and other issuances or portions thereof inconsistent with the provisions of these Regulations are hereby modified, repealed or revoked accordingly.

**SECTION 17. EFFECTIVITY.**— This Regulations shall take effect after fifteen (15) days following publication in a newspaper of general circulation.

(Original Signed)  
**CESAR V. PURISIMA**  
Secretary of Finance

Recommending Approval:

(Original Signed)  
**KIM S. JACINTO-HENARES**  
Commissioner of Internal Revenue



**CONFIDENTIAL**

**Trust and Investments Group**

April 11, 2018

Memo To : The Board of Directors  
Thru : The Related Party Transactions Committee  
The Trust Committee  
Subject : Amendment to Related Party Transaction Policy

This is to request approval to amend the Policy on Related Party Transactions to include the post-reporting of transactions of the group covering the following scenarios:

- a. The UITF or a related party IMA/trust account purchases and/or sells equities of a corporation considered as related party so long as the trades are done at market rates on transaction date. However, the TIG's purchases of a stock issued by a related party for the benefit of a trust account/IMA of a non-related party shall not be considered as a related party transaction.
- b. Participation of the UITF or a related party IMA/trust account in the initial public offering, stock rights offer, follow on offering or primary issue of a related party since the pricing for these types of securities are fixed for all investors
- c. Purchase of stocks, notes, bonds during primary or follow on offer from counterparties considered as related parties provided the pricing and expenses/charges are fixed for all investors.

All other related party transactions of TIG shall require prior approval of the RPT Committee, for transactions with threshold amounts of below P10M, and to the RPT Management Committee for transactions with threshold amount of P10M or higher.

For the Committee's approval.

Recommended by:

**MARIA CARMEN M. CASACLANG**  
Vice President

Endorsed by:

**LOURDES M. FERRER**  
First Senior Vice President and Trust Officer

## **POLICY ON RELATED PARTY TRANSACTION COVERING TREASURY DEALS**

*This document is an addendum to the Board-approved Policy on Related Party Transaction.*

### **1. Policy**

It is the Bank's policy that related party transactions are conducted at arm's length with any consideration paid or received by the Bank or any of its subsidiaries in connection with any such transaction being on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances.

As a matter of general policy, all related party treasury transactions that give rise to credit or market risk exposures shall be covered by Board-approved counterparty credit lines.

### **2. Pre-approved Treasury Transactions**

Pre-approved Treasury transactions with RPTs shall cover any treasury services, including purchases and sale of fixed income securities, foreign exchange or derivatives instruments. The following are deemed Pre-approved Treasury transactions and are no longer reportable to the RPT Committee.

- a. The transacted price/yield does not exceed the off market rate tolerance band as approved by the Risk Oversight Committee (ROC). This will ensure that the gain or loss that will arise from the transaction is not greater than the compensation associated with an arm's length transaction with a person that is not a party in interest.
- b. The general purpose of the transaction is to provide liquidity and to comply with regulatory requirements.
- c. The transaction is executed or mapped through an electronic communication network, trading system, brokers, or similar execution system or trading venue that is subject to regulation by a Philippine regulatory authority.

### **3. Transactions Subject to Post-Reporting**

Transactions exceeding the terms stated below shall be subject to post-reporting to the RPT Committee.

a. For purchases and sale of fixed income securities:

- The transacted amount, whether on a single transaction basis or one day aggregate, exceeds:

Peso Denominated Securities: Face Amount of P100,000,000.00

FCY Denominated Securities: Face Amount of \$10,000,000.00

- The transaction results to a trading gain of at least P5,000,000.00 to either party.

b. Foreign Exchange Transactions with notional amount of more than \$20,000,00.00, whether on a single transaction basis or one day aggregate.

### **4. Prohibited Transactions**

The following shall be considered Prohibited Treasury transactions with RPTs:

- a. Repurchase / re-sale of previously sold/ bought debt securities or an equivalent security with the same related party in a span of one day.
- b. Deals executed beyond the usual trading hours and off-premises.

Violations to the aforementioned policy shall be reported to the RPT Committee and to the Board.



## **WHISTLEBLOWING POLICY**

### **I. STATEMENT AND OBJECTIVES OF THE POLICY**

Whistleblowing policies are generally intended to make it easier for companies' employees to be able to report irregularities in good faith without any fear of reprisal.

The Whistleblowing Policy of Rizal Commercial Banking Corporation (the "Bank") is a key element in safeguarding the Bank's integrity. It aims to enhance the Bank's transparency and system for combating practices that might damage its activities and reputation. Protecting the integrity and reputation of the Bank requires the active support of its stakeholders, particularly its employees.

To give all employees the confidence to raise concerns about any behavior or practice and to mitigate risks and losses through the early discovery of irregular activities, the Bank commits itself to break down communication barriers and provide a safe internal communication channel for all employees to express their concerns through the enactment of the Policy, which allows for confidential disclosures and the protection of informants from sanctions under specific conditions.

This Policy provides the specific guidelines and procedures on whistleblowing, and how to treat reports of such nature. It also intends to protect the rights of employee(s) making the report under this Policy.

### **II. SCOPE OF THE POLICY**

There are existing procedures in place that would enable employees lodge a grievance relating to their own employment. This policy is intended to cover major concerns that fall outside the scope of existing Bank policies. The policy covers all reports or information relating to any of the following:

- **actual or suspected criminal activities;**
- **unlawful acts or omissions;**
- **fraud;**
- **violations of the Code of Conduct and other bank policies;**
- **danger to health and safety;**
- **improprieties or malpractice in the workplace, including those relative to matters of financial reporting, internal control and/or auditing.**

The policy applies directly to the Bank. It is for its subsidiaries and affiliates to adopt their own whistleblowing policy tailored to their respective organizations, taking into account the basic principles laid out herein.

### **III. BASIC PRINCIPLES**

The basic principles of the Bank's Whistleblowing Policies are as follows:



1. The policy must provide alternative and sufficient channels for whistleblowing and communication. In certain instances, they must be able to bypass the main channels for whistleblowing if these prove inappropriate;
2. Employees making the report in good faith should at all times be protected against reprisals;
3. Identities of employees making the report in good faith should remain confidential;
4. Reported incidents shall be verified in an appropriate manner, and if confirmed, the Bank must take the necessary actions;
5. The rights of any person implicated in any report must be respected.

#### IV. REPORTING OBLIGATIONS

All employees, regardless of position or rank, are obliged to report any suspected or actual criminal activities in the Bank, unlawful acts or omissions, fraud, violation of the Code of Conduct and other Bank policies, danger to health or safety, or any improprieties or malpractice including those relative to matters of financial reporting, internal control and/or auditing in the workplace.

Such incidents may involve other employees, clients, contractors, suppliers, stockholders and other stakeholders that participate in Bank activities.

Employees making the report are required to participate in any official investigation, audit, or any similar request.

No director, officer or stockholder may use his/her position or influence to prevent anyone from exercising his/her rights or complying with his/her obligations as indicated above.

#### V. REPORTING PROCEDURE

Any suspected or actual criminal activities in the Bank, unlawful acts or omissions, fraud, violation of the Code of Conduct and other Bank policies, danger to health or safety, or any improprieties or malpractice in the workplace must be reported by the employee to **his/her unit head or any of the following officers:**

- **The Internal Audit Group Head;**
- **The Branch Audit Group Head;**
- **The Human Resources Group Head;**
- **The Legal Affairs Group Head;**
- **The Regulatory Affairs Group Head (Compliance Officer); and/or**
- **The Bank Security Officer.**

If the use of the above reporting procedure is not appropriate in view of the circumstances or nature of the incidents, *i.e.*, there is conflict of interest, risk of reprisal, the intended recipient is personally implicated in the incidents to be reported, or the authority alerted failed to take appropriate action, the employee may directly report the matter to the Bank's **Corporate Governance Committee or any member thereof.**

The employee may choose the most appropriate channel for making the report. In the event that the report is received by a person who is not competent to act on the matter, the same must be transmitted, in strictest confidence, to a competent authority or those mentioned above. The employee making the report must be informed of such action.



Incidents may be reported by an employee by any means at his/her disposal such as, but not limited to, SMS, letter, e-mail or phone call. However, the person receiving such report is required to reduce the same in writing. The written report shall serve as basis for the conduct of an investigation.

The resources of the Internal Audit Group, Branch Audit Group, the Human Resources Group, the Legal Affairs Group, and the Regulatory Affairs Group shall be utilized in investigating the veracity of the reports, conducting administrative investigations and filing and prosecuting the necessary criminal and/or civil cases in relation thereto.

All disclosures received by any of the above authorized persons shall be treated with confidentiality.

## **VI. PROTECTION OF THE WHISTLEBLOWER**

The protection the whistleblower making a report in good faith shall be guaranteed by treating his/her identity with confidentiality. This means that his/her name will not be revealed during investigation, unless the whistleblower authorizes the disclosure of his/her identity. However, if the disclosure of the identity of the whistleblower is essential so as not to hinder or frustrate the investigation, or to ensure that the right of the person implicated to be heard is upheld, the Bank shall notify the whistleblower before revealing his/her identity.

A whistleblower making a report in good faith shall be protected against any act of retaliation, harassment and informal pressures. If the whistleblower believes that he/she has been a victim of retaliation, reprisal or harassment, he/she has the right to complain to the Human Resources Group Head, and request that protective measures be adopted. Such protective measures may include, but not limited to, the transfer of the whistleblower to a different business unit or branch. Any act of retaliation, reprisal or harassment against a whistleblower in relation to his/her act of reporting anomalies is tantamount to **grave misconduct**, a gross/terminable offense.

“Good faith” encompasses, among other things, an honest belief, the absence of malice and the absence of design to defraud or to seek an unconscionable advantage.

**If the allegation is, however, proven to be malicious or vexatious, the same may be considered a form of misconduct depending on the circumstances of the case.**

Any act of misrepresentation, forgery or deceit that an employee may initiate in order to intentionally harm a co-employee constitutes dishonesty and grave misconduct, which are grounds for termination of employment.

## **VII. RIGHTS OF THE PERSON IMPLICATED**

Any person implicated in the report of the whistleblower has the right to due process which means that he must to be notified of the allegations against him after the facts of the case has been established through the conduct of an initial investigation, and be given reasonable opportunity to be heard or explain his side of the controversy.

## **VIII. ADMINISTRATION OF THE POLICY**



The Human Resources Group and the Regulatory Affairs Group (through its Corporate Governance Division) are responsible for overseeing the implementation and compliance of this Policy within the Bank.

The Human Resources Group shall monitor all reported cases, and shall make a quarterly report to the Corporate Governance Committee on the number of reports received, actions taken and the latest status of each case.





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<b>POLICY</b>		
<p>All employees are governed by the Bank's Code of Conduct, which revolves around the Core Values of the company. It is designed to serve as guide to employees on how they should conduct themselves within and outside the Bank premises and in dealing with clients/customers and co-associates.</p> <p>Adherence to this Code is the responsibility of each and every associate. It is administered uniformly throughout the Bank and is independent of the practices of other banks. It is a condition for continuous employment. Any breach of this Code may result in disciplinary action ranging from reprimand to termination of employment, depending on the gravity of the offense, after the observance of due process.</p> <p>All employees are required to adhere to and uphold the tenets of the Code of Conduct and to report any violation thereof to a more senior officer, the Security Department, the Internal Audit Division or the Human Resources Group.</p> <p>The Code of Conduct is divided into five parts as follows:</p> <ul style="list-style-type: none"><li>A. Treatment of Clients</li><li>B. Treatment of Bank Assets</li><li>C. Treatment of Others</li><li>D. Conflict of Interests</li><li>E. Knowledge, Understanding &amp; Compliance</li></ul>		
<b>GUIDELINES</b>		
<p><b>A. Treatment of Clients</b></p> <p>As a service-oriented organization, all employees are expected to provide consistent, excellent and reliable service to both internal and external clients. The Bank adopts and trains its associates to abide by the following Service Formula:</p>		



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<p style="text-align: center;"><b>Preparation + Interaction + Follow-through = Service Beyond Expectations</b></p> <p>1. Preparation</p> <p>Clients expect employees to know the products and services of the Bank. As such, employees should have the initiative to learn about the different products and functions within his/her unit so that he/she may be able to serve the Bank's clients and address their queries on the spot when approached.</p> <p>2. Face-to-Face Client Interaction</p> <p><i>Client Acknowledgment.</i> Clients should be greeted promptly, by their preferred names or titles if possible. Their presence should be acknowledged with a nod or a smile or a quick friendly greeting. In case employees are unable to immediately attend to a client's needs, he/she should be quick to offer the client coffee, tea, or some reading materials. If an employee is busy with another client, it is important to acknowledge the presence of the client by pausing to nod or say "hi" to let the client know that his/her needs will be attended to as soon as possible. Smiling makes clients feel that they are on friendly ground hence, employees are encourage to smile all the time. Composure should always be maintained. Frustration, anger or irritation should not be shown as these might elicit negative reaction from our clients.</p> <p><i>Clarification of the Situation.</i> Asking, "How may I help you?" helps to identify and address what the clients' concerns are. To show empathy, employees should listen carefully to what the clients are saying. Referring clients to different contact persons must be avoided. Suggestions or recommendations must be offered to help meet the clients' needs.</p> <p>Employees should anticipate clients' needs and provide more than what they might expect. Further assistance may be offered and additional information may be provided on how to use the Bank's product or service.</p> <p>Powerful words such as "please" and "thank you" and "May I" instead of "Can</p>		



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<p><i>I'</i> help build client rapport and loyalty.</p> <p>Employees should refrain from discourteous acts such as eating in work areas, talking on cellular phones, texting, gossiping and staying long on the telephone while attending to a client or while a client is waiting to be attended to. The Bank does not tolerate shameful, unprofessional, immoral, scandalous or vulgar conduct especially if done in the presence or within the field of vision and/or hearing of a client.</p> <p>3. Client Interaction via Telephone</p> <p>The following are the guidelines to be followed in attending to client calls:</p> <ol style="list-style-type: none"> <li>a. Answer the telephone within three rings.</li> <li>b. Use the following Telephone Script in answering calls:           <ul style="list-style-type: none"> <li>• <b>Answering a call</b>  <i>"Good morning / afternoon, RCBC business center / department, how may I help you?"</i>              For executive Offices:  <i>"Good morning / afternoon, Office of Mr. / Ms. _____. How may I help you?"</i> </li> <li>• <b>Transferring a call</b>  <i>"I'll transfer you to _____. His local is _____. Please hold."</i>              If unavailable:  <i>"His line is still busy, would you like to leave message with me?"</i>  <i>"May I put you on hold?"</i> </li> <li>• <b>Answering a transferred call</b>  <i>"Thank you for waiting, this is _____." "How may I help</i> </li> </ul> </li> </ol>		



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<p>you.”</p> <ul style="list-style-type: none"> <li>• <b>Connecting a transferred call</b>  <i>“This is a transfer call for / to _____.” (Name of caller is on the line.” Note: Avoid saying, “For a while.”</i></li> <li>• <b>Placing outgoing calls</b>  <i>“(Greeting of the day), may I speak with (Name of called person)”</i>            Thank the person who will be transferring the call. Leave the message/s to the right person.</li> </ul> <p>c. Associate’s name should be stated; associates should answer with a SMILE in their voices. People can hear a smile over the telephone. The tone of voice will communicate a positive attitude to the person on the other end of the line.</p> <p>d. When an associate leaves the workstation, he/she should have somebody take his/her calls. All calls should be returned before the day ends.</p> <p>e. Before a client is placed on hold, the associate should first ask permission and wait for an answer. If what the client need will take longer than one (1) minute, the associate should ask if he/she could call back. If there are several calls on hold, the associate should remember the priority of each call.</p> <p>f. The client should hang up first. Before hanging up the phone, the associate should ask the client if there is anything else he/she would like to discuss.</p> <p>g. Always thank the client for calling before hanging up. This lets the client know when the conversation is over.</p> <p>4. 2-Day Turnaround Time &amp; Follow-through</p> <p>Associates should acknowledge receipt of and address internal and external client inquiries, requests, complaints or suggestions on the spot within two (2)</p>		



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<p>days from the time these are made.</p> <p>If a client's request cannot be resolved within the given time, he/she should be informed of the estimated resolution time and regularly provide status updates without need of being prompted and even before the arrival of the deadline.</p> <p>If resolution of the client's request necessitates the participation of other units, associates should make it a point to inform said other units with information on the client and the request. The other units should be provided with information on client complaints and offer suggestions on improvements. For those colleagues who are able to deliver a good job, recognition and a note of appreciation are being encouraged.</p> <p>5. Handling Difficult Clients</p> <p>Encountering a difficult client represents an opportunity to improve service and provide feedback thereon to the rest of the unit for purposes of improving overall efficiency. Should such a situation arises, associates are expected to <b>TAKE THE H-E-A-T</b>, bearing in mind the following guidelines:</p> <ol style="list-style-type: none"> <li><b>H</b>ear the client out. Client should not be interrupted when he/she is venting out his/her emotion.</li> <li><b>E</b>mpathize. Show the client through words and deeds that his/her feelings are understood.</li> <li><b>A</b>pologize. Admit fault if it is clear that that the organization is to blame. However, this should not be done profusely or go into the details on why the problem occurred lest the organization be misconstrued as being incompetent.</li> <li><b>T</b>ake responsibility for one's action. If an employee can resolve a problem on his/her own, then this must be done by him/her. If the</li> </ol>		



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<div data-bbox="1068 600 1208 632">Page 6 of 34</div> <p data-bbox="475 653 1421 722">problem cannot be resolved immediately, necessary actions must be taken to show the client that something is being done.</p> <p data-bbox="380 789 1421 932">Moreover, encountering such a situation should be taken as an opportunity to shine in the eyes of a disgruntled client. If such a situation is successfully handled and the client's needs are satisfied, more likely the Bank will gain said client's loyalty and trust.</p> <p data-bbox="285 947 651 978">6. Offenses &amp; Penalties</p> <p data-bbox="380 1020 1421 1125">Each incident of unprofessional, discourteous or uncivil behavior constitutes a <i>minor offense</i> if directed towards an internal client, or a <i>serious offense</i> if directed towards an external client.</p> <p data-bbox="380 1167 1421 1236">Each incident of harmful, abusive or obscene behavior towards or within the vicinity of external clients constitutes a <i>grave offense</i>.</p> <p data-bbox="188 1289 639 1320"><b>B. Treatment of Bank Assets</b></p> <p data-bbox="285 1362 1421 1505">All employees are mandated to protect the Bank's assets and to use the same for authorized business purposes only. Guidelines for the Treatment of Bank Assets shall be divided into four (4) major categories: (1) <i>Proprietary Information</i>; (2) <i>Bank Funds &amp; Property</i>; (3) <i>Bank Records</i>; and (4) <i>Goodwill &amp; Reputation</i>.</p> <p data-bbox="285 1547 948 1579">1. Treatment &amp; Use of Proprietary Information</p> <p data-bbox="380 1621 1421 1761">a. <i>Proprietary Information</i> is any information or knowledge, the unauthorized disclosure of which could disadvantage the Bank competitively or financially or subject the Bank to legal sanctions. It includes <i>Confidential</i> and <i>Material Non-Public Information</i>.</p> <p data-bbox="380 1803 1421 1873">b. <i>Confidential Information</i> is any information of any kind and character relating to the business and operations of the Bank, including its plans,</p>		



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	<p>processes, practices, programs, corporate schemes and all other data relative to its clients/customers and their accounts, which may come to the knowledge of an associate by reason of his/her position or employment.</p> <p>c. <i>Material Non-Public Information</i>, on the other hand, is defined as information that could potentially affect the share prices of the Bank, which have not yet been disclosed by the Bank to the Philippine Stock Exchange (PSE). Examples of these are information on earning results of the Bank, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership.</p> <p>d. The general rule is that proprietary information shall not be disclosed unless authorized by the Bank and the law.</p> <p>e. Among the external parties who are automatically authorized to receive <i>proprietary information</i> are those who are bound by duty to maintain the trust and confidence of the Bank such as, but not limited to, its auditors, legal counsels, investment bankers and financial advisers. Should there be a need to reveal <i>proprietary information</i> to parties other than those earlier cited, a confidentiality or non-disclosure agreement must first be executed by said external party before actual disclosure.</p> <p>f. Selective disclosure of <i>Material Non-Public Information</i> may be allowed under the following conditions:</p> <p>f.1 The Bank is ready to disclose the same to the PSE;</p> <p>f.2 A written request for disclosure is filed by external parties or the associate handling/safekeeping the information; and</p> <p>f.3 Said request is approved by the handling associate's immediate and next level supervising officers prior to actual disclosure of said information.</p>	



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<p>g. As an added precaution, invitations to speak or to be interviewed in any conference, television or radio program with regard to any matter about the Bank, must first approved by the President or the Executive Committee.</p> <p>h. Every unauthorized disclosure of proprietary information which results in actual or potential loss or damage to the Bank or if willfully done is considered a <i>grave offense</i>, or a <i>minor offense</i> if done inadvertently.</p> <p>i. The <i>Law on Secrecy of Deposits</i> under R.A. 1405, which prohibits the disclosure of any information pertaining to Bank clients, must be strictly observed. Questions regarding the particulars of said law, including the situations wherein employees are mandated and/or allowed to disclose such information, may be addressed to the Legal Services Division.</p> <p>Violation of this law for whatever reason is considered a <i>grave offense</i>.</p> <p>2. Treatment &amp; Use of Bank Funds &amp; Property</p> <p>a. Bank funds and property include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>(a) company time;</li> <li>(b) cash, checks, drafts, charge cards and provisions for employment related allowances;</li> <li>(c) land, buildings and all improvements attached thereto;</li> <li>(d) vehicles including fuel and all other allowances for the maintenance thereof;</li> <li>(e) office equipment, including telephones, fax machines, scanners, printers, photocopying machines, paper shredders and projectors;</li> <li>(f) computer hardware, software, systems and accessories and the</li> </ul>		





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	<p>records contained therein;</p> <ul style="list-style-type: none"> <li>(g) network/internet resources;</li> <li>(h) NDD/IDD telephone, bulletin board and other communication facilities;</li> <li>(i) scrap and obsolete equipment;</li> <li>(j) office supplies; and</li> <li>(k) all other funds and property.</li> </ul> <p>b. All employees are responsible for safeguarding and making proper and efficient use of Bank funds and property by following procedures to prevent their loss, theft, destruction or unauthorized use, such as but not limited to, the following policies on control or check-and-balance:</p> <ul style="list-style-type: none"> <li>(a) Bank policies on securing the approval of the proper authorities before using company time, money or vehicles for official business;</li> <li>(b) Bank policies on securing approval before overriding or clearing credit and other banking transactions when the same is beyond one's approval limits;</li> <li>(c) Bank policies on dual custody and other security measures;</li> <li>(d) Bank policy against the sharing of user IDs/passwords;</li> <li>(e) Bank policies on disbursement of funds, cash advance, reimbursement of expenses, securing employee loans and other benefits, the proper use of travel allowances, computer and internet/ e-mail/telephone facilities, etc.</li> <li>(f) All Operational Control Policy Circulars, Administrative Policy Circulars, Credit memos, etc.</li> </ul>	



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	<p><i>Offenses &amp; Penalties.</i> Each incident of willful destruction, unauthorized taking or theft of Bank Funds &amp; Property for any reason, as well as the unauthorized use thereof for illegal purposes, for personal gain, or for the purpose of maligning or harming the Bank, its employees or shareholders, including attempts thereto, shall constitute a <i>grave offense</i>.</p> <p>Each incident of unauthorized use of any item under pars. (a) to (e) for any reason shall constitute a <i>grave offense</i>.</p> <p>Each incident of unauthorized use of any item under pars. (f) to (k) for personal recreational purposes within the workplace constitutes a <i>minor offense</i>.</p> <p>The failure to properly and reasonably safeguard or ensure the proper, efficient, productive and authorized use, transfer, payment or disbursement of any of the above mentioned Bank funds and property through any of the above-mentioned means shall constitute a <i>minor offense</i> if due to <i>negligence and the act results in an actual or potential loss of below P50,000.00</i>; a <i>serious offense</i> if the negligence results in an actual or potential loss of <i>P50,000.00 to below P100,000.00</i>; and a <i>grave offense</i> if due to <i>willful disobedience, gross and/or habitual negligence</i>.</p> <p>Negligence is <i>gross</i> if the oversight/mistake results in an actual or potential loss of <i>P100,000.00</i>, or possible criminal prosecution and/or damaged reputation on the part of the Bank or any of its key officers or directors.</p> <p>Negligence is <i>habitual</i> if the oversight/mistake occurs repeatedly, regardless of whether or not the acts result in actual losses, and the neglect already exposed the Bank to reputational/operational risks and/or risk of monetary loss.”</p>	



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### RIZAL COMMERCIAL BANKING CORPORATION

#### Waiver of Non Compliance to Policies and Procedures

<b>Department/Unit/ Business Center:</b>		<b>RC No:</b>	<b>Date:</b>
<b>Nature of Transaction:</b>		<b>Affected Policies/Procedures:</b>	
<b>Action Taken:</b>		<b>Alternative Control Procedure/s:</b>	
<b>Prepared by:</b>	<b>Endorsed by:</b>	<b>Approved by:</b>	



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3. Treatment & Use of Bank Records

a. Employees are expected to produce accurate records and to safeguard and preserve the authenticity thereof because only through said records can transactions, payments or events be verified, validated, authenticated or proven. Note that every transaction inputted or entered in any of the Bank’s systems form part of the records and are closely monitored and audited by the BSP and other government regulatory offices and that any failure to preserve its authenticity can expose the Bank to fines, penalties and risk of suit.

b. Bank records include, but are not limited to, the following:

(a) Passbooks, withdrawal and deposit slips, the entries therein as well as the transaction media supporting the same;

(b) Ledgers and transaction reports;

(c) Systems generated reports;

(d) Expense reports and applications for reimbursement;

(e) Employment records;

(f) Applications for loan and other employee-related benefits, etc. including all documents supporting the same.



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	<p>c. Associates who are issued user IDs/passwords or other forms of entry or pass keys for purposes of gaining access to data, records, computer systems and the like are the only persons authorized by the Bank to access and/or use the same.</p> <p>d. User IDs/passwords and/or magnetic cards are issued by the Bank because it deems it very important for security, accountability and audit purposes to monitor who exactly is accessing, entering transactions and/or using a particular Bank Asset at any given date and time.</p> <p>e. Sharing or lending user IDs/passwords or magnetic cards for any reason is considered a <i>serious offense</i> and punished accordingly, even if it be for purposes of filling-in for an absent colleague or even if it be upon the instructions of unit heads.</p> <p>f. It is likewise because of these reasons that user IDs/passwords and/or magnetic cards are being treated as the functional equivalent of the employee's signature. Every time a transaction is entered or processed using the employee's user ID/password, it will be conclusively presumed that he/she was the one who entered the same. Thus, the Bank shall hold the employee solely, or jointly liable with the actual user if identified, for any loss or damage suffered by the Bank by reason of the processed transaction.</p> <p>g. Should an associate's user ID/password or magnetic card be stolen from him/her or otherwise taken and used without his/her consent, only the person who stole the same shall be liable for any loss/damage suffered by the Bank by reason of its use. The owner, however, may still be held liable should it be determined that he/she failed in safeguarding the same through reasonable means.</p> <p>h. The act of tampering with receipts or submitting spurious receipts for</p>	



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	<p>reimbursement or justification of claims purposes (i.e. leaves, loans and hospitalization requirements, etc.), of giving false data to expedite approval processes, of illegal logging, of willfully manipulating or destroying timekeeping records, of accessing Bank systems without authority, and of entering/processing bogus transactions for whatever reason, are strictly prohibited and considered <i>grave offenses</i>, regardless of whether or not the Bank suffers any loss.</p> <p>It is also in this regard that the <i>Bangko Sentral ng Pilipinas</i> criminalized the making of false entries by any bank director, officer, employee or agent in any bank report or statement which will affect the financial interest of, or cause damage to, the bank or any person. (Section 55.1(a) of the <i>General Banking Law of 2000</i> vis-à-vis Section 36 of R.A. 7653 or the <i>New Central Bank Act</i>).</p> <p>4. Treatment of the Bank's Goodwill &amp; Reputation</p> <p>a. All employees are reminded to act in a way that will not endanger or detrimentally affect the public's and client's perception of the Bank, even if outside the Bank's premises/offices or outside Bank sponsored activities.</p> <p>As officers and employees of YGC, everyone necessarily carries the corporate brand/reputation. How we are regarded by the external public is influenced by how each one behaves in public, whether in a professional or personal capacity.</p> <p>Any act that tends to damage or destroy the Bank's goodwill and reputation, whether made directly or indirectly, through whatever means, is considered a grave offense.</p> <p>b. YGC's businesses are in areas (e.g. finance, education) where trustworthiness is paramount. Thus, everyone is called upon to be circumspect in his/her dealings. Highest ethical standards must be</p>	



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	<p>complied with at all times and acts, affairs or relationships that may damage the image and reputation of the Bank are not acceptable. Our continuing success depends on the above. As such, examples of the above acts include the following:</p> <ul style="list-style-type: none"> <li>• Letting ones account/credit card be used as conduit for disreputable transactions and/or in disreputable establishments;</li> <li>• Acts of lasciviousness, whether inside or outside bank premises;</li> <li>• Mismanaged finances such as checking accounts, credit cards, loan and other forms of indebtedness, which includes failure to pay just debts or being habitually delinquent in the payment of debts.</li> </ul> <p>Moreover, Management has reposed its confidence on each member of YGC. Going to, and being seen in, casinos and gambling dens gives an impression that one may be tempted to dip into others' funds.</p> <p>The foregoing acts negatively impact one's professional integrity and are bases for Management to lose confidence in one's ability to perform his duties and responsibilities, which may include being trusted with clients' funds and other resources. Any such act shall be considered as a grave offense.</p> <p>c. Only authorized associates shall be allowed contact with the media (TV, print, radio, on-line, etc.) regarding RCBC matters. All media contacts should be referred to the Marketing Group.</p> <p>Moreover, in line with the Bank's Social Media Policy, employees are reminded to be careful and prudent when posting pictures or information on social media. Posts that may negatively affect the Bank's goodwill and reputation may take forms such as, but not limited to, the following:</p> <ul style="list-style-type: none"> <li>• Unauthorized creation of RCBC accounts;</li> </ul>	



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<ul style="list-style-type: none"> <li>• Reckless posting of bank products and services;</li> <li>• Indiscreet poses, whether during company events or during outside/personal engagements;</li> <li>• Posts of unofficial activities, especially if performed during office hours;</li> <li>• Posts that will prove misdeclaration of information relayed to the Bank; and</li> <li>• Negative posts or comments about clients that may result in displeased customers and eventual loss of business.</li> </ul> <p>Any associate who violates the above provisions on media and social media may be subjected to disciplinary sanction depending on the gravity of the offense.</p> <p><b>C. Treatment of Others</b></p> <p>Living out the Bank's Core Values in day-to-day interaction with colleagues assures a work environment that is harmonious, productive, work inspiring, healthy and safe, free from discrimination, harassment and intimidation. Attitudes and behavior that undermine this goal hampers productivity and discourages meritorious performance, thus, are not tolerated.</p> <p>1. Treatment of Co-Associates</p> <p>The Bank believes the working environment should at all times be supportive of the dignity and self-esteem of individuals. Achieving this desired environment greatly depends upon the mutual respect, cooperation and understanding employees exhibit to fellow associates.</p> <p>1.1 Anti-Sexual Harassment Policy</p> <p>a. High on the list of unacceptable behavior is sexual harassment. Sexual harassment is a form of power play where a person uses the clout of</p>		





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	<p>his/her position to intimidate subordinates into tolerating sexual overtures or advances. It is committed by any person who, having authority, influence or moral ascendancy over another in a work or training environment, demands, requests or otherwise requires any sexual favor from the other, regardless of whether said demand, request or requirement is accepted by the object of said act.</p> <p>b. Sexual harassment in the workplace is exemplified by, but not limited to, the following acts:</p> <p>b.1 when a sexual favor or request for a date is made as a condition in the hiring, employment, re-employment or continued employment of an individual, or in granting said individual favorable compensation, terms, conditions, performance ratings, promotions or privileges; or</p> <p>b.2 when the refusal to grant said favor or request results in the discrimination or segregation of said individual and in diminished, or threats of diminished, employment opportunities as compared to others; or</p> <p>b.3 when the refusal to grant said favor or request brings about an intimidating, hostile or offensive environment for said individual.</p> <p>c. Sexual harassment, for purposes of this code, shall also include actual or threatened sexual assault, actually touching a co-associate in sensitive parts of his/her body without consent, making obscene or indecent proposals in person or through phone calls or text messages during or after work hours, and other threats of a sexual nature. It may be committed within or outside Bank premises, while conducting Bank business, attending Bank-sponsored activities, during work-related travel or even during break times, after office hours or during rest days.</p> <p>d. Sexual harassment may take many forms. It may be subtle and indirect or</p>	



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	<p>blatant or overt. It may be physical, verbal or visual in nature. Sexual harassment acts may include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>d.1 persistently telling smutty jokes to an associate who has indicated that he/she finds them offensive;</li> <li>d.2 taunting an associate with constant talk of sex or sexual innuendos despite his/her protest;</li> <li>d.3 displaying offensive pictures or publication in the workplace despite an associate's protest;</li> <li>d.4 asking an associate intimate questions on his/her sexual activities despite his/her protest;</li> <li>d.5 making offensive hand or body gestures, luridly staring or leering at an associate despite his/her protest;</li> <li>d.6 pinching or unnecessarily brushing up against an associate's body despite his/her protest.</li> <li>e. Any person who commits sexual harassment or directs or induces another to commit any act of sexual harassment as herein defined, or who cooperates in the commission thereof by another shall be subject to disciplinary action.</li> <li>f. The Bank likewise finds acts of retaliation just as offensive as actual sexual harassment. Any person against whom a complaint for sexual harassment is filed is deemed to commit retaliatory acts when he/she carries out any of the following: <ul style="list-style-type: none"> <li>f.1 Disciplining, changing work assignments of, providing inaccurate work information to, or refusing to cooperate or discuss work-related matters with an associate because that associate has complained about, resisted or witnessed sexual harassment;</li> <li>f.2 Intentionally pressuring a complainant or witness of sexual harassment, falsely denying, lying about or otherwise covering up or attempting to cover up acts of sexual harassment;</li> </ul> </li> </ul>	



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	<p>f.3 Maliciously spreading rumors designed to destroy the reputation of a complainant or witness of sexual harassment;</p> <p>f.4 Threatening the promotional opportunities, job securities and other service-related benefits and privileges of a complainant; or</p> <p>f.5 Other acts similar to the foregoing.</p> <p>g. It shall be the responsibility of the unit head to whom the victim and/or aggressor is assigned to immediately prevent or deter any reported commission of acts of sexual harassment and to report the same to the Human Resources Group.</p> <p>h. The Committee on Decorum and Investigation shall have exclusive jurisdiction to handle and adjudicate all sexual harassment cases as herein defined. The Committee shall be composed of the members of the Personnel Evaluation &amp; Review Committee (PERC). An officer of the RCBC Employees Union may sit as Observer in cases where rank-and-file employees are involved.</p> <p>The Committee shall, however, have the power to form and delegate the responsibility of investigating and hearing to a sub-Committee composed of officers assigned at Luzon, Visayas and Mindanao should the parties involved in the case be stationed thereat. Said sub-Committee shall submit a written recommendation to the Committee who shall make a final decision based thereon.</p> <p>i. Investigation shall commence upon the filing by the complainant of a complaint for sexual harassment with the Human Resources Group who shall refer the same to the Committee for handling and disposition. HRG shall act as receiver for and in behalf of the said committee and shall keep all documents, files and names of the parties and witnesses confidential.</p> <p>The procedure for investigating and resolving sexual harassment</p>	



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	<p>complaints shall follow that prescribed for administrative disciplinary proceedings.</p> <p>j. The HRG may suspend the respondent without pay for not more than thirty (30) days pending investigations if there are strong reasons to believe that the respondent's continued presence in the workplace will greatly hamper the productivity of the group to which he/she belongs or endanger the safety and well-being of his/her co-associates, most especially his/her alleged victim.</p> <p>Should the respondent, after investigation, be held innocent of the charges, all unpaid salaries by reason of the preventive suspension will be credited to his/her payroll account.</p> <p>k. Due to the sensitivity of the matter and with the objective of giving ample protection to the parties involved, the proceedings herein as well as the entire records of the case shall be treated with the highest standard of confidentiality.</p> <p>1.2 Grave Misconduct</p> <p>In order to provide employees with a safe, healthy, harmonious and productive work environment, the Bank condemns certain acts such as, but not limited to, the following:</p> <p>a. Threatening or violent behavior, or even the suggestion of such behavior, towards associates whether within or outside Bank premises.</p> <p>b. <i>Insubordination</i> or <i>Willful disobedience</i> to Management's just and valid orders.</p> <p>c. <i>Dishonesty</i> or <i>fraud</i> committed against co-associates and/or the Bank.</p> <p>d. <i>Commission of a crime/Violation of Existing Laws</i></p>	



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<p>1.3 Other Acts of Misconduct</p> <p>Uttering obscene, insulting or offensive words against associates, making racist, sexist, ethnic, or homophobic jokes or politically incorrect comments about associates, rumor-mongering and the like are likewise prohibited by the Bank for the same reasons stated above.</p>		
<p>2.</p>	<p>Treatment of Shareholders &amp; Suppliers</p> <p>As with the Bank's clients, Shareholders are the reason for the company's existence. Suppliers, on the other hand, include those who provide us with catering, security, housekeeping and maintenance, sorting, messengerial, chauffeur, advertising, communications, legal, technology-based services and the like.</p> <p>Employees should strive to build good working relationships with the Bank's shareholders and suppliers. They should be treated in the same manner as co-associates – with utmost courtesy and respect as they are also expected to achieve the highest standards of service quality to clients.</p>	
<p>3.</p>	<p>Open Communication</p> <p>Open communication makes the Bank's Core Values come alive. It means giving one another accurate and timely information about business or administrative issues.</p> <p>When communication takes the form of a concern or complaint, employees can raise that to their unit heads knowing that the same will be properly acted upon. If the concern or complaint is about a unit head, or if the unit head cannot solve the problem, employees can take the matter to their next higher unit head or directly to the Human Resources Group without fear of reprisal for making known, in good faith, that concern or complaint.</p> <p>Open communication is an extension of mutual respect on another level. If an employee discovers an anomaly, policy infraction or system/policy defect, he/she should report it</p>	



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<p>immediately to afford the Bank the opportunity to curtail any further damage or loss of Bank funds and property.</p> <p>Please see Annex for full policy on Open Communication.</p> <p>4. Offenses &amp; Penalties</p> <p>Failure by the complainant's and/or respondent's immediate head to immediately prevent, deter or in any way address the reported commission of acts of sexual harassment or to report the same to the Committee is considered a <i>minor offense</i>.</p> <p>The commission of <i>Sexual Harassment, Other Forms of Sexual Harassment</i> or any <i>Act of Retaliation</i> as herein defined is considered a <i>grave offense</i>.</p> <p>An associate who, in one way or another, aids the harasser in committing acts of sexual harassment or retaliation shall suffer the same penalty as that handed down to the harasser.</p> <p>Any act of <i>Grave Misconduct</i> as herein defined is considered a <i>grave offense</i>.</p> <p>Any <i>Other Acts of Misconduct</i> as herein defined is considered a <i>minor offense</i>.</p> <p><b>D. Conflict of Interests</b></p> <p>The Bank's policy on conflict of interests is simple – Do not compete with or unduly benefit from RCBC or any of the Yuchengco Group of Companies and never let business dealings on behalf of RCBC be influenced by personal or family interests.</p> <p>1. Competing with RCBC</p> <p>To avoid competing with RCBC and YGC, employees are not allowed to enter into unauthorized relationships with its competitors. Employees should not own or work for or assist any unauthorized person or entity outside or within RCBC, including family or friends, in the planning, design, promotion and sale of products or services that compete</p>		



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<p>or could compete with that of RCBC/YGC. This involves, among other things, directly or indirectly dealing in securities, and personally engaging, or helping someone else engage, in money lending or foreign exchange services, in selling or referring non-YGC insurance, credit card or other products, within or outside Bank premises, whether or not there is personal gain and without proper authority from RCBC's Board of Directors or Executive Committee.</p> <p>Employees are prohibited to introduce lenders or broker the loan of clients or another employee for any reason or purpose. Employees should not, whether collectively or individually, engage in the business of extending personal loans to other employees or the public through whatever scheme or avail of a loan from the Bank's customers or suppliers.</p> <p>Employees should not assist anyone, even if they are clients, in the buying and selling of foreign currency unless the transaction is with the Bank's forex, regardless of whether or not there is personal gain. In addition, employees should not assist or introduce lenders to buyers and vice-versa, even if they are clients, unless the transaction is in connection with the Bank's own loan facilities, regardless of whether or not there is personal gain.</p> <p>2. Unduly Benefiting From RCBC</p> <p>To avoid conflict of interest, employees are to conduct business transactions for the Bank in accordance with Bank policy and avoid direct or indirect use of the Bank's goodwill, reputation, funds and property or other resources for personal gain. This involves, among other things, accepting gifts, entertainment or favors from customers or suppliers; outside employment; outside directorship; and receiving commissions or benefits from customers or suppliers.</p> <p><b><i>Gifts and Entertainment</i></b> – Generally, we can accept a gift if it is unsolicited and not given to influence one's judgment. Otherwise, we should decline it and explain RCBC's policy to the gift-giver. We do not solicit gifts, directly or indirectly, from customers or suppliers. Under no circumstance do we accept, directly or indirectly, payments, loans,</p>		



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<p>kickbacks, special privileges or services in exchange for favors.</p> <p><b><i>Entertainment</i></b> – We may accept occasional meals or other forms of entertainment from customers or suppliers as a courtesy extended during the normal course of business, provided the entertainment is not being offered to influence one's business decisions and that the interests of the Bank is not compromised.</p> <p><b><i>Favors</i></b> – RCBC does not buy business. We obtained on the merits of our products, service and people. We not bend rules nor offer money, illegal or inappropriate favors of unusual value to obtain or retain business. In this regard, any and all significant donations or contributions to or through a customer for whatever purpose using Bank property or funds should be with the prior authorization of the concerned Group Head. Should said donation or contribution be through the purchase of a raffle or lottery ticket, any prize or winnings therefrom, regardless of whether the ticket is in the employee's possession or in the employee's name, must be turned over to the Bank.</p> <p><b><i>Outside Employment &amp; Other Pursuits</i></b> – Employees are not allowed to engage in any other gainful employment without the consent of the Board of Directors, whenever the nature of the work or business competes with that of RCBC, or when said work or business or other pursuit interferes with the employee's duties or is done during work hours. Those presently without the required clearance must make full disclosure and secure approval.</p> <p>The following are covered:</p> <ul style="list-style-type: none"> <li>(a) part-time jobs;</li> <li>(b) teaching or tutoring;</li> <li>(c) consultancy;</li> <li>(d) outside practice of a profession;</li> <li>(e) studying; and</li> <li>(f) other similar activities.</li> </ul>		





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<p><b><i>Receiving Commissions or Benefits</i></b> – Employees must avoid situations, which may unduly influence the relationships with customers or suppliers in a position to transact business with the Bank. Employees must make sure that the procedures laid down in providing customer services or in purchasing goods and services are strictly followed. Employees who have a direct hand in choosing companies from which purchases of the Bank's business requirements are to be made, are <del>discouraged</del> <u>prohibited</u> to use said authority to obtain commissions or leverage to purchase the same item/s for personal interests at terms not otherwise available to his/her colleagues or the public. Suppliers and customers are chosen based on merit and not on what can be gained from them.</p> <p>3.     <b>Use of Inside Information</b></p> <p>There are laws that prohibit the use of inside information when buying, selling or trading publicly traded securities, including RCBC securities. Inside information can take many forms, but always includes information which is not available to the public and which might influence an investor's decision to buy, sell or hold securities in a company.</p> <p>Employees should not buy, sell or trade RCBC securities or the securities of other companies about which employees have inside information, until that information becomes public. In addition, this information should not be shared with anyone else, including family members or friends or anyone about trading in any securities based on this information.</p> <p>Because inside information is extremely valuable, it must be handled just as like the way other RCBC proprietary information is handled. Employees do not discuss it with family, friends or anyone else; do not talk about it in public places; do not fax it to unattended machines; and do not tell others at RCBC unless they must know for legitimate business reasons.</p>		
<p>4.     <b>Related Party Transactions</b></p> <p>Related Party Transactions can present potential or actual conflicts of interest and may</p>		



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<p>raise questions about whether such transactions are consistent with the Bank's and its stockholders' best interests. It is the Bank's policy that related party transactions are conducted at arms length with any consideration paid or received by the Bank or any of its subsidiaries in connection with any such transaction being on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances.</p> <p>There are regulations as well as standards on the reporting and disclosure of related party transactions. These are adopted in the Bank's Policy on Related Party Transactions. To ensure effective compliance therewith, all employees are mandated to report any potential related party transactions in the manner provided under the Bank's existing Policy.</p> <p><b>5. Company Shares</b></p> <p>All employees are required to disclose/report any dealings in the company's shares to HRG – Employee Relations Department within 3 business days.</p> <p><b>6. Offenses &amp; Penalties</b></p> <p>Any act that is found to be in conflict with the interests of the Bank is considered a <i>grave offense</i>.</p> <p><b>E. Knowledge, Understanding &amp; Compliance</b></p> <p>All employees must ensure understanding of and compliance with all Bank policies and Philippine laws directly affecting his/her employment.</p> <p><b>1. Dissemination of Bank Policies</b></p> <p>It is the joint responsibility of the Human Resources Group and all unit heads to disseminate copies of the Employees Manual to all associates, to ensure that they are</p>		



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<p>briefed thereon and that they comply therewith.</p> <p>It is the responsibility of unit heads, on the other hand, to disseminate to his/her people all other policies directly affecting their jobs and ensure that they are briefed thereon and that they comply therewith.</p> <p>As RCBC's policies are disseminated bank-wide through e-mail and/or posting at the Pop Station, all associates with computer access are mandated to check their e-mail on a daily basis and to read any and all policies posted thereat. Unit heads are additionally required to print copies thereof for those who have no computer access and to disseminate the same by providing them with hard copies or by posting one (1) hard copy at his office's designated bulletin board.</p> <p>2. Queries &amp; Requests for Clarification/Trainings</p> <p>It is the employee's responsibility to immediately read and understand the contents of the Employees Manual and ask questions on matters that need clarification. It is likewise the employees responsibility to acquaint themselves with all policies directly affecting their jobs and ask clarificatory questions and/or for additional training immediately upon occupying a position or upon transfer to a new position.</p> <p>Queries with regard to the provisions contained in this policy may be directed to the HR Help Desk via <a href="mailto:hr_helpdesk@rcbc.com">hr_helpdesk@rcbc.com</a>.</p> <p>Queries regarding Business Center operations policies or requests for additional training in connection therewith may be directed RBG</p> <p>Queries regarding information technology systems may be directed to the IT Helpdesk at <a href="mailto:itg_hdo@rcbc.com">itg_hdo@rcbc.com</a>.</p> <p>Queries regarding any other policy may be directed to the department, division or group sponsoring the same.</p> <p>Requests for training concerning any other matter may be addressed to the unit head or</p>		



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the Training Department at <a href="mailto:training@rcbc.com">training@rcbc.com</a> .		
3.	<b>Verbal &amp; Written Instructions</b>  Verbal and written instructions issued by superiors, if not contrary to existing Bank policy, deserve respect and compliance. Should an employee have legitimate objections to any issued directive, he/she is reminded to obtain a written exception thereto prior to the deadline for compliance. Should there be no time to properly seek an exception, employees are reminded to comply first then object later.	
4.	<b>The Anti Money Laundering Act, the Law on Secrecy of Bank Deposits, Government Reportorial Requirements, etc.</b>  As a banking institution, the Bank is governed by the provisions of the AMLA, the <i>Law on Secrecy of Bank Deposits</i> , as well as the other regulations issued and to be issued by the <i>Bangko Sentral ng Pilipinas</i> (BSP), the Securities & Exchange Commission (SEC), the Philippine Stock Exchange (PSE), the Department of Labor & Employment (DOLE), and by the Government of the Republic of the Philippines as a whole. It is the duty of all employees to abide by the provisions thereof lest sanctions be imposed upon the Bank.  Among the requirements for compliance set by aforesaid regulations is the need to timely and accurately transmit reports and any failure to do so is normally met with the imposition upon the Bank of substantial fines and/or penalties.  Questions regarding any provision of law may be addressed to the respective Group Head or the Legal Services Division.	
5.	<b>Presumption of Knowledge &amp; Understanding</b>  Failure to read Bank policies that have been duly disseminated shall not be accepted as an excuse for policy violations. It shall be the responsibility of all unit heads to	



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document receipt by their people without computer access of any and all policies posted for dissemination.		
<p>An employee's failure to ask for clarification or for additional training within a reasonable time from receipt of any policy or upon assumption of a new position shall be deemed an admission that he/she fully understands the same and knows what he/she is doing. In this regard, ignorance of this code and other Bank policies, or lack of training, will no longer be accepted as an excuse.</p>		
6. Special Responsibility of Unit Heads		
<p>People who supervise or manage others have a special responsibility to show through words and action, personal commitment to the highest standards of <i>Integrity First, Professionalism, Reliability, Client Orientation, Teamwork and Accountability</i>. As coaches, mentors and leaders, the unit heads must ensure that their people understand the Bank's demand that everyone should act in accordance with the Core Values. Everyone is expected to take reasonable steps and devise ways and means to ensure that misconduct and policy violations within the areas of responsibility are timely detected and properly addressed.</p>		
7. Offenses & Penalties		
<p>The failure to properly abide by the Bank's policies and procedures, our supervisor's written instructions, the AMLA, the Law on Secrecy of Bank Deposits and other government regulations and reportorial requirements, in the absence of specific penalties therefor, shall constitute a <i>minor, serious or grave offense</i> following the definitions stated in Treatment &amp; Use of Bank Funds &amp; Property.</p>		



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<p style="text-align: center;"><b>CODE OF DISCIPLINE</b></p> <p><b>A. TYPES OF PENALTIES</b></p> <p><b>1. Reprimand</b></p> <p>A <i>Reprimand</i> is a written admonition given to an associate for a minor offense. Said penalty shall not be considered for purposes of promotion.</p> <p>Documentation of this disciplinary action shall be through a Decision Memorandum (Template II), copy furnished the associate's Group Head, the Human Resources Group and the 201 file.</p> <p><b>2. Warning</b></p> <p>A <i>Warning</i> is a penalty more severe than a reprimand. It warns an associate against the imposition of a more severe penalty should another offense be committed. Said penalty shall not be considered for purposes of promotion.</p> <p>Documentation of this disciplinary action shall be through a Decision Memorandum (Template II), copy furnished the associate's Group Head, the Human Resources Group and the 201 file.</p> <p><b>3. Suspension Without Pay</b></p> <p>A <i>Suspension</i> is a penalty imposed upon an associate due to his repeated commission of a <i>minor offense</i> or for his first time commission of a <i>serious offense</i>. It may be served continuously or intermittently upon the discretion of the line but with prior notice to the Human Resources Group.</p> <p>Any and all leaves or other benefits shall not accrue while an associate is under suspension. Said associate shall not be allowed to have access to Bank property while serving the suspension.</p>		



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### 4. Termination of or Dismissal from Employment

As stated in this Code's Table of Penalties, *Termination* or *Dismissal* is a penalty imposed upon an associate for his repeated commission of a *minor or serious offense* or first time commission of a *grave offense* or any of the *just causes for termination* as defined under Philippine laws and jurisprudence. It takes the form of a ***Notice of Decision*** that is issued by the Human Resources Group and becomes effective on the day it is personally or presumptively received by the associate concerned, after due process.

Should the associate served with said notice be within Bank premises at the time of service, he shall be given a reasonable amount of time to collect all of his personal belongings in the presence of a security guard before he is asked to surrender his Identification Card and other Bank Assets, and escorted out of Bank premises.

Terminated associates shall not be allowed within Bank premises without the prior notice of the Human Resources Group and the Security Department.

### 5. Payment

If the offense committed involves dishonesty or results in damage or loss to the Bank, the employee guilty thereof may be required to pay the amounts lost in addition to or in lieu of serving the penalty/s imposed.

Payment may be in lump sum or through automatic salary deductions, forfeiture of earned benefits and/or future bonuses, or any other scheme that may hasten payment of the entire obligation, at the discretion of the deciding body.

### 6. Demotion and/or Reduction of Pay/Benefits

*Demotion in Rank and/or Position and/or Reduction of Pay/Benefits* are penalties that may be imposed upon an associate in lieu of termination for humanitarian considerations



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<p>and depending on the circumstances surrounding the case. It may be imposed as a penalty by itself or in addition to other penalties. It is normally imposed in relation to findings of incompetence, or gross and/or habitual negligence.</p>		
<b>7. Permanent Transfer</b>		
<p>The <i>Transfer</i> of an associate to another position within the same or in a different location, may be imposed upon an associate in lieu of termination or in addition to other disciplinary actions. It may be imposed for the commission of an offense attributable to too much familiarity with colleagues and/or the workplace.</p>		
<b>B. Types of Offenses</b>		
<b>1. Minor Offenses</b>		
<p><i>Minor Offenses</i> are policy violations that do not manifest insubordination, dishonesty, ill motives or loss of integrity nor do they result in monetary loss on the part of the Bank or in physical and emotional harm to any of its associates. Note, however, that <i>Minor Offenses</i> may become serious or grave if committed habitually or if actual monetary loss or injury to the Bank eventually results therefrom.</p>		
<b>2. Serious Offenses</b>		
<p>Generally, a <i>Serious Offense</i> is one that results in or contributes to actual or potential damage to the Bank.</p>		
<b>3. Grave Offenses</b>		
<p>Generally, a <i>Grave Offense</i> is one that merits the termination of an employee's employment per Bank policy or the just causes for termination provided under Philippine laws.</p>		





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### 4. Specific Offenses

A Specific Offense is one where specific penalties are attached, i.e. tardiness, AWOL, non-wearing of prescribed office attire, etc.

### 5. Table of Penalties

TYPE OF OFFENSES	1 <sup>st</sup> CITATION	2 <sup>nd</sup> CITATION	3 <sup>rd</sup> CITATION	4 <sup>th</sup> CITATION
<i>Minor Offense</i>	Reprimand	Warning	Suspension	Termination
<i>Serious Offense</i>	Suspension	Termination		
<i>Grave Offense</i>	Termination			

### C. General Guidelines on the Imposition of Penalties

#### 1. Mitigation or Aggravation of Penalties

The Bank reserves the right to impose a penalty lower or higher than those prescribed above on a case-to-case basis, depending on the presence and effect of the following circumstances:

- a. ready admission to the offense and/or cooperation during the investigations;
- b. employment tenure;
- c. presence or absence of past infractions;
- d. presence or absence of bad faith or fraudulent intent;
- e. absence or extent of damage to the Bank;
- f. voluntary payment of resulting Bank losses; and
- g. others.



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<p>Such exceptions, if applied, will not constitute precedents for the purpose of adjudicating subsequent similar cases.</p> <p><b>2. Gradation of Penalties</b></p> <p>If the table of penalties provides a graduated penalty for an offense, any failure to discipline and penalize an employee for committing the 1<sup>st</sup> of that offense shall not bar Management from later on disciplining and imposing the penalty prescribed for any succeeding offense (i.e. 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, etc.) provided that all prior commission/s of said offense be proven.</p> <p><b>3. Other Legal Actions</b></p> <p>The imposition of administrative sanctions for an offense will not preclude the Bank from filing appropriate civil and/or criminal actions or to otherwise recover from the erring employee any and all losses or damages the Bank may suffer by reason thereof.</p> <p>The non-imposition of administrative sanctions due to an administrative finding of innocence will not preclude the filing of another administrative case or of a civil/criminal case in court should new evidence gathered after the termination of the first administrative case reveal the employee's culpability.</p>		