

# RELATED PARTY POLICY

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## RELATED PARTY POLICY

### 1. INTRODUCTION

In recent years, corporate governance has become a subject of global concern and the pressure placed on financial institutions to employ good corporate governance practices is even more paramount. The Basel Committee of Banking Supervision in its October 2006 issue of the Core Principles of Effective Banking Supervision (Principle 20 - Transactions with Related Parties) states:

*"In order to prevent abuses arising in transactions with Related Parties and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with Related Parties on an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to Related Parties in accordance with standard policies and processes."*

Accordingly, Republic Bank (Ghana) PLC ("the Bank") is required to effectively monitor Related Party Transactions for conflict of interest situations, abuses and or self-dealing and adopt appropriate steps to control or mitigate these risks in accordance with the principles outlined herein.

This policy will apply to any transaction where the Bank is a participant and the Related Party has or will have a direct or indirect material interest.

This Policy will ensure sound practices are implemented throughout the Bank with respect to the treatment of Related Party Transactions.

For clarity and the purposes of this Policy, the definition of "Related Party" has been extended to align with the definition used by the Bank's parent company, Republic Financial Holdings Limited.

### 2. DEFINITIONS

#### 2.1 Definition of "Related Party"

- (a) A Holding Company, Significant Shareholder or Affiliate of the Bank;
- (b) A person who holds five (5) per cent or more of any class of shares of the Bank or of a holding company
- (c) Any party that the Bank exerts control over or that exerts control over the Bank;
- (d) An Affiliate of a holding company, controlling Shareholder or significant Shareholder of the Bank;
- (e) A Director or Officer of the Bank or of a holding company, controlling Shareholder or significant Shareholder of the Bank;
- (f) A Relative of a Director or Officer of the Bank.
- (g) A company or unincorporated body that is controlled by a (i) a Director or Officer of the Bank or of a holding company, or significant Shareholder of the Bank and (ii) a Relative of a Director or Officer of the Bank;
- (h) A company or unincorporated body in which a Director or an Officer of the Bank or a Relative of such Director or Officer has a material interest;
- (i) The auditor and officers of the Bank's audit firm.

## 2.2 **Definition of "Related Party Transaction"**

Any financial transaction, arrangement or relationship in which or where:-

- (i) the Bank is a participant and
- (ii) any Related Party has or will have a direct or indirect material interest.
- (iii) the transactions and exposures already existed at the time when a person or entity becomes a Related Party shall be a Related Party Transaction.

## 2.3 **Other Definitions**

2.3.1 **"Affiliate"** one body corporate is affiliated with another body corporate if (a) one of them is the subsidiary of the other, or both are subsidiaries of the same body corporate, or each of them is controlled by the same person; and (b) if they are affiliated with the same body corporate at the same time.

2.3.2 **"Benefit"** means an advantage, privilege, profit or gain, whether or not in exchange for consideration

2.3.3 **"Control"** means the power of a person or entity whether in his or its own right or by agreement or otherwise to:

- (i) exercise more than 50% of the voting rights at any general meeting of a company or unincorporated body;
- (ii) exercise dominant influence over the conduct of the business and affairs of a company or unincorporated body.

2.3.4 **"Controlling Shareholder"** shall be construed according with the same definition for "control

2.3.5 **"Holding Company"** a body corporate is the holding body corporate of another if that other body corporate is its Subsidiary

2.3.6 **"Institution"** means either of the Bank, or any of its Affiliates or subsidiaries as applicable

2.3.7 **"Officer"** means the Managing Director, Executive Directors, General Managers, Senior Managers, Key Management Personnel as defined in the BoG "the Banking Business – Corporate Governance Directive" and any other individual who performs similar functions to those referred to herein whether or not they have been formally designated.

2.3.8 **"Material Interest"** means a fact, circumstance, state of affairs, occurrence or any other matter which may not be of a financial nature, and which may cause a reasonable person to conclude that it has the potential to influence the vote or decision of a Director or Officer

2.3.9 **"Relative"** refers to any person or persons who can be expected to influence a Director or Officer or be influenced by that Director or Officer. This generally includes:

- (i) spouse, child or
- (ii) adopted or step-child or
- (iii) grandparent, parent, brother or sister, step brother, step sister, cousin, nephew, niece, aunt, uncle.

- 2.3.10 **"Shareholder"** in relation to a company, includes but is not limited to:-
- (i) the personal representative of a deceased Shareholder;
  - (ii) the trustee in bankruptcy of a bankrupt Shareholder; and
  - (iii) a person in whose favour a transfer of shares has been executed but whose name has not been entered in the register of Shareholders, or, if 2 or more transfers of those shares have been executed, the person in whose favour the most recent transfer has been made
- 2.3.11 **"Significant Shareholder"** means a person who either alone or with one or more Affiliate, relative or connected person is entitled whether by agreement or otherwise to exercise 5% or more of the capital or voting rights at any general meetings of the institutions.
- 2.3.12 **"Subsidiary"** means a company which is controlled by another company.
- 2.3.13 **"Transaction"** means a transfer of benefits, resources, obligations, or the provision of services, regardless of whether a price is charged.
- 2.3.14 **"Unsecured advances"** means any advances or credit granted without security or any part thereof that at any time exceeds the market value of the assets constituting that security.

### 3. **EXAMPLES OF IMPROPER RELATED PARTY TRANSACTIONS**

- a. Credit Policies provide for the treatment of Related Party transactions and will apply together with this Policy.
- b. Related Party Transactions are not *prima facie* improper, however, the following outlines the types of Related Party Transactions that would contravene this policy:-
  - i. Excessive dividend payments to Shareholders relative to the income of the Institution;
  - ii. Investments, loans or deposits to or from a Related Party at less than market rates of return and or with no formal loan agreement documentation;
  - iii. Extension of credit to a Related Party with no serious nor genuine attempt to collect the outstanding receivables;
  - iv. Sales of assets or services to a Related Party where the sales price is less than fair market value;
  - v. Asset or service purchases or leases from a Related Party where the price of the asset or service is in excess of fair market value;
  - vi. Management agreements with the parent company or other Related Party where the management fees are greater than what a third party manager would charge for the same service;
  - vii. Joint ventures with an affiliated company or other Related Party that are structured such that the Institution pays a high proportion of the costs, but receives a low proportion of the benefits;
  - viii. Rental agreements with a Related Party where the rent paid by the Institution is greater than fair market value;

- ix. Rental agreements with a Related Party where the rent received by the Institution is less than fair market value

#### **4. NOTIFICATION OF RELATED PARTY TRANSACTIONS**

##### **4.1 Bank Notifications**

The following information shall be provided to the Company Secretary of the Bank by 31<sup>st</sup> December, each year and updated as often as is necessary:

(i) From the Bank:

- i. the Directors and Officers of Shareholders that own more than 20% shares
- ii. Shareholders that own 5% or more of the Bank's shares;
- iii. Affiliates of the Bank that own 5% or more of the Bank's shares;
- iv. The Bank's Affiliates;
- v. Directors and Officers of the Bank's Affiliates';
- vi. Entities controlled by its Directors and Officers; and

(ii) From every Director and Officer of the Bank:

- i. Relatives
- ii. Entities in which their Relatives have a material interest or control ; and
- iii. Entities in which Directors or Officers have a material interest or control.

(iii) From the Auditor:

A list of its partners and officers to include the full names and addresses of the persons and entities listed.

##### **4.2 Notifications from Related Parties**

- i. Every Director and Officer shall promptly notify the Branch, HR or Company Secretary directly of any material interest in a Related Party Transaction.
- ii. The notice shall include a description of the transaction and the aggregate amount.
- iii. All Related Parties have the responsibility to notify of the Bank of their transactions.

#### **5. APPROVALS OF TRANSACTIONS**

##### **5.1 Related Party Credit Transactions**

- a. Approval of Related Party Credit Transactions shall be conducted in accordance with the Bank's Credit Policy and this Related Party Policy.
- b. Any transaction that is identified (by any one Director) as a Related Party Transaction shall be subject to the Related Party Transaction procedures;
- c. Any Related Party Transaction shall be referred to the Audit Committee for review;
- d. The Audit Committee may determine that a Related Party Transaction is sufficiently material to be referred to Shareholders for approval;
- e. Any Related Party Transaction not designated as material under subparagraph (d) shall be subject to approval by the Board of Directors or Board Credit Committee and any vote by the Board of Directors or Board Credit Committee shall exclude those with a conflict of interest or any interest in the Related Party or the transaction;

- f. No Director or Officer who has an interest shall be provided with any papers or other information or participate in any discussion or approval of that transaction, except that the Director or Officer shall provide all material information concerning the Related Party Transaction to the Bank.
- g. The following transactions with a Related Party in a Related Party Transaction shall not be designated as material under (d) above and as such shall be subject to the approval of the Board of Directors or the Board Credit Committee regardless of the amount:
  - i. Writing off/writing down of the principal in respect of debts due from a Related Party
  - ii. Compromising of the principal with respect of the debts due from a Related Party
- h. Where the Board of Directors (excluding those not entitled to vote under sub paragraph (e)) does not unanimously approve the Related Party Transaction, it shall be referred to the Shareholders for approval; and
- i. Any Related Party Transactions that are approved by the Shareholders shall be identified in the Annual Report.

#### **5.2 Employee Credit Transactions**

Employee credit transactions shall be dealt with in accordance with the relevant Human Resource Policies approved by the Board of Directors.

#### **5.3 Non-Credit Related Party and Employee Transactions**

- i. Non-Credit Related Party or Employee transactions are governed by the Bank's Human Resource Policies, Guidelines on Ethics and Code of Conduct as well as the Vendor Management Policy.
- ii. All Directors, Officers and Employees of the Bank are bound by the Bank's Guidelines on Ethics and Code of Conduct. In this regard every Director, Officer and Employee is expected to be reasonably knowledgeable about the laws of the country; as well as all the rules, regulations and Policies which are implemented by the Board of Directors and/ or Management of the Bank from time to time.
- iii. The Bank's Vendor Management Policy requires that relationships established with vendors related to any Director, Officer or Employee be at arm's length and the related Director, Officer or Employee must be excluded from the selection process.

#### **5.4 Reports to the Board of Directors**

The Company Secretary shall prepare a summary report to the Board of Directors in respect of all Related Party Credit Transactions and any other Related Party Transactions which were approved by the Board of Directors or the Board Finance and Credit Committee that took place in the previous calendar year and shall submit same for the information of the Board of Directors at the first Board meeting of each year.

### **6. GENERAL CRITERIA FOR RELATED PARTY TRANSACTIONS**

- a. Related Party Transactions shall be entered into on terms no less favourable to the Institution than terms generally available to a third-party under the same or similar circumstances.

- b. The person responsible for approving a Related Party Transaction shall consider any results of an appraisal or bidding process and shall review any valuation and alternative approaches to evaluation of the transaction.
- c. The following shall be considered when assessing a Related Party Transaction:
  - i. the terms of such transaction;
  - ii. the Related Party's interest in the transaction;
  - iii. the purpose and timing of the transaction;
  - iv. whether the Bank is a party to the transaction, and if not, the nature of the Bank's participation in the transaction;
  - v. if the transaction involves the sale of an asset, a description of the asset, including date acquired and costs basis;
  - vi. information concerning potential counterparties in the transaction;
  - vii. the approximate value of the transaction and the approximate value of the Related Party's interest in the transaction;
  - viii. description of any provisions or limitations imposed as a result of entering into the proposed transaction;
  - ix. whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction; and
  - x. any other relevant information regarding the transaction.

**7. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY**

- a. In the event the Bank becomes aware of a Related Party Transaction that is contrary to this Policy, the transaction shall be reported to the Board of Directors.
- b. The Board of Directors shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Bank, including ratification, revision or termination of the Related Party Transaction.

**8. ADOPTION AND REVIEW OF POLICY**

- a. This Policy shall be reviewed every two (2) years by the Board of Directors of the Bank.
- b. Any amendments to this Policy on Related Party Transactions must be approved by the Board of Directors of the Bank.