

Far Eastern University

Policy on Intercompany Loans and Advances

I. Introduction and Purpose

The Board of Trustees (BOT) of Far Eastern University Inc. (FEU Inc.) permits loans or advances for specific purposes between or among related parties within the FEU Group when there is opportunity for the Group to get better terms, such as to avoid or reduce bank spread in a financing arrangement.

This policy establishes the requirements for loans and advances between FEU related parties.

II. Definition of Terms

Arms-length interest rate – As defined in Revenue Memorandum Order No. 63-99 issued by the Bureau of Internal Revenue, the arms-length interest shall be the rate of interest which was charged or would have been charged at the time the indebtedness arose in independent transaction with or between unrelated parties, under a similar transaction. All relevant factors will be considered, including the amount and duration of the loan, the security involved if any, the credit standing of the borrower, and the interest rate prevailing at the situs of the lender or creditor for comparable loans. For purposes of determining the arms-length interest rate, the parties may consider the Bank Reference Rates prescribed by the Banko Sentral ng Pilipinas. In addition, interest rate from commercial banks and other sources for loans and investments may also be considered.

III. General Principles

- 1) Intercompany loans or advances are permitted for capital or operating expenditures.
- 2) The proposal to enter into an intercompany loan or advance should be reviewed based on the following considerations:
 - a) The reason for the request for loan or advance;
 - b) Amount of loan or advance;
 - c) Proposed term of the loan or advance;
 - d) Benefit to the FEU Group versus obtaining a bank/third-party loan;
 - e) Source of capital repayment;
 - f) Source of interest payment

All the terms of the intercompany loan or advance shall be reviewed and endorsed by the Audit Committee of FEU Inc. prior to ratification by the BOT and by all parties to the loan agreement, in accordance with the FEU Related Party Transactions Policy.

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- 3) In reviewing the intercompany loan or advance, the Audit Committee should consider all the following factors, as prescribed in the FEU Related Party Transactions Policy:
 - a) Terms of the transaction
 - b) Aggregate value of the transaction
 - c) Benefits to the University of entering into the transaction
 - d) Extent to which the terms of the RPTs are less or more favorable than terms generally available in non-related transactions under the same or similar circumstances
 - e) Possible conflict of interest or risks or contingencies for the University
 - f) Any material information or other factors the Audit Committee deems relevant.
- 4) Interest rate on intercompany loans or advances should be based on an arms-length interest rate, or investment rate, as may be appropriate. Any deviation should be justified by special circumstances.
- 5) No intercompany loans or advances should be entered into without an adequate source of funds for repayment on the part of the borrower.
- 6) Documentary stamp tax will be for the account of the borrower, unless specified otherwise.
- 7) All agreements should be reviewed by the FEU Legal Department prior to signing of all parties involved.
- 8) All intercompany loans and advances should be handled in accordance with the FEU Related Party Transaction Policy and the requirements of existing tax laws and regulations.

IV. Review of Policy

This Policy shall be reviewed from time to time in order to reflect economic conditions or the requirements of applicable laws, rules and regulations.

V. Effectivity

This policy shall take effect upon approval of the BOT of FEU Inc.