

Related Party Transaction Policy Manual



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Table of Contents

	Page
I. Introduction.....	3
II. Definition of Terms.....	3
III. Related Party Transaction Committee.....	5
A. Composition.....	5
B. Meeting, Notice and Quorum.....	6
IV. Duties and Responsibilities.....	6
A. Board of Directors.....	6
B. Related Party Transaction Committee.....	7
C. Senior Management.....	8
V. Guidelines in Ensuring Arm’s Length Terms.....	9
VI. Materiality Threshold and Internal Limits.....	9
A. Materiality Threshold	9
B. Internal Limits for Aggregate Exposures.....	10
VII. Excluded Transactions.....	10
VIII. Required Disclosure.....	10
IX. Review and Approval of Related Party Transactions.....	11
A. Procedure.....	11
B. Voting Requirements.....	11
X. Whistle Blowing Mechanism.....	12
A. Procedure.....	12
B. False or Malicious Reports.....	13
C. Protection for Whistleblowers.....	13
XI. Disclosure and Regulatory Reporting.....	13
XII. Policy Review and Implementation.....	13
XIII. Measure for Restitution of Losses and Penalties.....	13

I. Introduction

The Board of Directors (“Board”) of Maxicare Healthcare Corporation (“Corporation”) has formally adopted this Related Party Transaction Manual (“Manual”) that incorporates the guidelines of the Insurance Commission (“IC”) on Related Party Transactions (“RPT”) for Health Maintenance Organizations (“HMOs”), pursuant to IC Circular Letter No. 29, Series of 2017. Through this Manual, the Board aims to regulate all RPT and ensure that such transactions are only undertaken on an Arm’s Length basis for the financial, commercial and economic benefits of the Corporation.

It is the position of the Corporation not to enter into an RPT, unless the Related Party Transaction Committee of the Corporation (“RPT Committee”) reviews and the Board approves all material transactions in accordance with the guidelines set forth in this Manual.

II. Definition of Terms

Wherever used in this Manual, and unless the context otherwise requires, the following words and expressions shall have the meaning respectively ascribed to them:

- A. *“Affiliate”* refers to a company that directly or indirectly through one (1) or more intermediaries, is controlled by, or is under common control of the parent company of the conglomerate. It also refers to a company whose ownership, control or power to vote 10% or more of its voting stock is related or linked through common stockholders;
- B. *“Arm’s Length”* refers to the process involved in handling the transaction as well as the economic terms of the transactions covered by this Manual, wherein the RPT is conducted in the regular course of business and not undertaken on more favorable economic terms than similar transactions with non-related parties under similar circumstances;
- C. *“Close Family Members”* shall refer to persons related to the Corporation’s directors, officers and stockholders (“DOS”) within the second (2nd) degree of consanguinity or affinity, legitimate or common-law. Close Family Members shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son or daughter-in-law, brother or sister-in-law, grandparent-in-law, and grandchild-in-law of the Corporation’s DOS;
- D. *“Conflict of Interest”* means a situation when a Related Party appears to have a direct or indirect personal or financial interest in any transaction, which may deter or influence him from acting in the best interest of the Corporation;
- E. *“Confirmation”* shall mean that the Board and/or stockholders has taken note of the RPT and that it upholds/maintains the previous approval of the nonmaterial RPT by the RPT Committee, Senior Management Team (SMT), and SMT member/s;

- F. *“Control”* exists when there is: (1) power to govern the financial and operating policies of the Corporation under a statute or agreement; (2) power to appoint or remove majority of the members of the Board; (3) power to cast majority votes at meetings of the Board; or (4) any other arrangement similar to any of the above.

Control is presumed to exist if: (i) if any person or together with affiliated persons directly or indirectly owns, controls or holds with the power to vote forty percent (40%) or more of the voting securities of any other legal entity. Provided, That no person shall be deemed to control another person solely by reason of his being an officer or director of such other person. Should the Corporation choose to disclaim or rebut the presumption of Control, a written commitment shall be made and submitted by the Corporation to the IC that: (1) the shares owned or held by the Corporation-stockholder are exclusively for investment purposes; (2) the Corporation-stockholder will not serve on the Board and will not nominate any candidate to serve on the Board or otherwise seek representation on the Board; (3) the Corporation-stockholder will have only limited contacts with the investee-management; (4) the Corporation-stockholder will engage only in normal and customary transactions with the investee-company; and (5) the Corporation will not pledge the shares acquired to secure a loan with any company;

- G. *“Corresponding Persons of Affiliated Companies”* shall refer to the DOS of affiliated companies and their Close Family Members;
- H. *“Independent Director”* refers to a person other than an officer or employee of the Corporation, its Parent, Affiliates, Subsidiaries, or any other individual having any relationship with the Corporation, who could interfere with the exercise of independent judgement in carrying out the responsibilities of a director. This means that apart from the director’s fees and shareholdings, he should be independent of management and free from any business or other relationship that could materially interfere with the exercise of his independent judgement;
- I. *“Non-Executive Director”* refers to a member of the Board who does not hold a position in any department or unit of the Corporation nor performs any work related to its operation;
- J. *“Parent”* refers to the company that has Control over the Corporation directly or indirectly through one (1) or more intermediaries;
- K. *“Related Parties”* shall include the following:
1. Parent;
 2. Subsidiaries;
 3. Affiliates;
 4. entities that the Corporation exerts direct or indirect Control or that exerts significant influence over the Corporation;
 5. joint venture companies in which the Corporation is a venture;

6. Corporation's directors, officers, stockholders and their related interests ("DOSRI") and their Close Family Members;
 7. Corresponding Persons in Affiliates that can exercise influence over a transaction; and
 8. such other person or juridical entity whose interests may pose potential conflict with the interest of the Corporation;
- L. *"Related Party Transactions"* shall refer to transactions or dealings with Related Parties of the Corporation, regardless of whether or not a price is charged. These shall include, but not limited to the following:
1. on and off-balance sheet credit exposures, claims and write-offs;
 2. investments and/or subscriptions for debt or equity issuances;
 3. consulting, professional, agency, and other service arrangements or contracts; purchases and sales of assets, including transfer of technology and intangible items (e. g. research and development, trademark and license agreements);
 4. construction arrangements or contracts;
 5. lease arrangements or contracts;
 6. trading arrangements or contracts;
 7. trading and derivative transactions;
 8. borrowing, commitments, fund transfers and guarantees;
 9. sale, purchase or supply of any goods or materials; and
 10. establishment of joint venture entities; and
- M. *"Significant Influence"* refers to the power to participate in the operating and financial policy decisions of an entity; it is not control over those policies. It may stem from share ownership, statute or agreement and may be exercised by representation on the board of directors, participation in the policymaking process, material inter-company transactions, interchange of management personnel and dependence on technical information.
- N. *"Subsidiary"* refers to a company more than fifty percent (50%) of the voting stocks of which are owned or controlled directly or indirectly through one (1) or more intermediaries of the Corporation.

III. Related Party Transaction Committee

A. Composition

The RPT Committee shall be composed of at least three (3) members of the Board, two (2) of whom shall be Independent Directors, including the chairperson. The RPT Committee shall at all times be entirely composed of Independent Directors and Non-Executive Directors, with Independent Directors comprising majority of the members.

In case a member has Conflict of Interest in a particular RPT, he/she shall abstain from the evaluation and approval process of that particular transaction.

The Board may appoint one or more persons to serve as advisors to the RPT Committee. The advisors shall have the right to attend and speak at any meeting of the RPT Committee but shall have no right to vote in respect of any action by the RPT Committee.

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

B. Meeting, Notice and Quorum

The RPT Committee shall meet once every three months, or whenever necessary, to discuss and agree on matters to be approved. Written or personal notice of such meeting shall be sent to each member not less than three (3) days before the meeting date; Provided, that failure to send the required notice, or any irregularity therein, shall not affect the validity of such meeting or any proceeding thereat if all the members of the RPT Committee are present at such meeting.

A majority of the total members of the RPT Committee shall constitute a quorum for the purpose of transacting its business.

IV. Duties and Responsibilities

A. Board of Directors

The Board shall have the overall responsibility of ensuring that RPTs are handled in a sound and prudent manner, with integrity, and in compliance with the applicable laws and regulations, to protect the interest of the members, claimants, creditors and other stakeholders. Towards this end, the Board shall carry out the following duties and responsibilities:

1. To observe good governance and approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an Arm's Length basis, and that no stakeholder is unduly disadvantaged;
2. To evaluate and approve all material RPTs endorsed by the RPT Committee, write-off any material exposures to Related Parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal of material changes in the terms and conditions of RPTs shall also be approved by the Board;
3. To delegate to the RPT Committee, SMT and SMT member/s, whenever it deems fit to do so, the approval of nonmaterial RPTs. All decisions under the delegated authority must be properly recorded in the minutes of the meetings;

4. To confirm the approval of all nonmaterial RPTs made by the RPT Committee, SMT or SMT member/s.
5. To establish an effective system to:
 - a. Determine, identify and monitor Related Parties and RPTs;
 - b. Continuously review and evaluate existing relationships between and among businesses and counterparties; and
 - c. Identify, measure, monitor, and control risks arising from RPTs.
6. To maintain adequate capital against risks associated with exposures to Related Parties and RPTs; and
7. To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The Board shall ensure that the Corporation's senior management addresses legitimate issues on RPTs that are raised. The Board should take responsibility for ensuring that employees who raise such concerns are protected from detrimental treatment or reprisals.

B. Related Party Transaction Committee

The RPT Committee shall have the following duties and responsibilities:

1. Evaluate on an ongoing basis the existing relationship between and among the Corporation's business and counterparties to ensure that all Related Parties are continuously identified, RPTs are monitored, and subsequent changes in relationships are reflected in the relevant reports to the Board;
2. Evaluate all material RPTs and all nonmaterial RPTs that amount to fifty million pesos or more to ensure that they are not undertaken on more favorable economic terms to such related parties than similar transaction with non-related parties under similar circumstances, that no corporate or business resources of the Corporation are misappropriated or misapplied, and to determine any potential reputation risk issues that may arise as a result of or in connection with the transactions;
3. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the RPT exposure, and policies on Conflicts of Interest or potential Conflict of Interest. The disclosure shall include information on the approach to managing material Conflicts of Interest that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other Related Parties;

4. Report to the Board, on a regular basis, the status and aggregate exposure to each Related Party as well as the total amount of exposures to all Related Parties;
5. Ensure that transactions with Related Parties are subject to periodic independent review or audit process; and
6. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of the RPT policies and procedures.

C. Senior Management Team

The SMT is comprised of 10 to 15 of the Corporation's Senior Officers who were designated as members of the said team.

The SMT shall have the following duties and responsibilities:

1. Implement appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis. Exposures to Related Parties shall also be monitored on an ongoing basis to ensure compliance with the Corporation's policy and the IC's regulations;
2. Request the Internal Audit to conduct a periodic formal review of the effectiveness of the Corporation's system and internal controls governing RPTs to assess consistency with the Board-approved policies and procedures. The resulting audit, reports, including exceptions or breaches in limits, shall be communicated directly to the Audit and Risk Oversight Committee; and
3. Ensure that the Corporation complies with relevant rules and regulations and is informed of regulatory developments in areas affecting the Related Parties. It shall aid in the review of the Corporation's transactions and identify any potential RPT that would require the review of the Board or the RPT Committee. It shall ensure that this Manual and any related issuances and policies are kept updated and are properly implemented throughout the Corporation.
4. Ensure that all nonmaterial RPTs are reviewed and approved by SMT or SMT Member/s in accordance with policies and procedures under this manual and regulations issued by IC.
5. Report every quarter to the RPT Committee all material and nonmaterial RPTs and aggregate exposures to each related party including the contracts and certain details of the contracts in-force.

V. Guidelines in Ensuring Arm's Length Terms

RPTs shall be conducted in the regular course of business and not undertaken on more favorable economic terms than similar transactions with non-related parties under similar circumstances. In determining whether to approve an RPT, the RPT Committee or the Board shall take into account the following:

- A. The Related Party's relationship with the Corporation and interest in the transactions;
- B. The material facts of the proposed RPT, including the proposed individual aggregate value of such transaction;
- C. The benefits to the Corporation of the proposed RPT;
- D. Description of provisions or limitations imposed as a result of entering into an RPT;
- E. An assessment of whether the terms and conditions of the RPT is comparable with the terms generally available to the transactions of non-related parties under similar circumstances;
- F. Presence of Conflict of Interest or similar risks between the Corporation, Subsidiaries, Affiliates, directors and officers, taking into account the size of the RPT, degree of influence of the related parties to the transactions, and the overall financial position of the Related Party/ies;
- G. The availability of other sources of comparable products or services; and
- H. Valuation methodology used and alternative approaches to valuation of the RPT.

VI. Materiality Threshold and Internal Limits

A. Materiality Threshold

A RPT shall be considered material if it involves a financial transaction, arrangement, exposure or contract in which the amount or in the case of contracts, the total estimated value over a twelve-month period is equivalent to or more than 10% of the total stockholders' equity as presented in the most recent audited financial statements and rounded off to the nearest million. In addition, one or more financial transactions or contracts with the same related party and with total estimated value over a twelve-month period is equivalent to or more of than 10% of the total stockholders' equity shall be also considered material RPTs.

B. Internal Limits for Aggregate Exposures

To ensure that RPTs are within prudent levels, limits are established for aggregate exposures to a related party and aggregate exposures to all related parties that are consistent with the Corporation's risk appetite, risk profile, capital strength and asset size. Aggregate Exposure Limit to a related party shall be 5% of the Corporation's total assets and the Aggregate Exposure Limit to all related parties shall be 20% of the Corporation's total assets.

Any breach of the above internal limits shall be reported to the Board. The Board should resolve whether to accept the exposure or to take steps to address the breaches.

VII. Excluded Transactions

The following types of transaction, even if the individual or aggregate amount exceeds the materiality threshold, shall not require the review and approval of the RPT Committee and the Board:

- A. Any transaction where the Related Party's interest arises solely from the ownership of the Corporation's stocks (e.g., declaration of dividends);
- B. Any transactions where the rates or charges involved in the transaction are determined by competitive bids or fixed by law or regulated by a governmental authority; and
- C. Auxiliary services granted with preferential rates or waivers given to all employees as part of employees' (including senior officers) incentives or benefits.
- D. Deposit and withdrawal transactions with a related party bank that are entered in the normal course of the business and subject to ordinary deposit terms and conditions.

VIII. Required Disclosure

All members of the Board, stockholders, and management shall disclose to the Board whether they have direct or indirect financial interest in any transaction or matter affecting the Corporation. Furthermore, any member of the Board, stockholders, and management with personal interest in any transaction of the Corporation shall abstain from the discussion, approval and management of such transaction or matter affecting the Corporation.

All officers of the Corporation shall be required to declare and provide attestation every year regarding their close family members and related interests, including their transactions with the Corporation, if any.

IX. Review and Approval of Related Party Transactions

A. Procedure

The following procedure shall be observed in the review and approval of RPTs:

1. Every proposed material RPT and certain nonmaterial RPTs mentioned in item (3) below shall be subject to the RPT Committee's prior review;
2. The RPT Committee shall review all proposed material and nonmaterial RPTs mentioned in item (3) below in accordance with the principles of transparency, integrity, and fairness to ensure that they are at Arm's Length, the terms are fair, and they will inure to the best interest of the Corporation;
3. If the proposed RPT is material, the Board shall approve it but if below the materiality threshold, the SMT or SMT member/s shall have the authority to approve such transaction. Upon approval of the RPT, the SMT shall endorse such transaction to: (a) the Board, if the amount involved is below fifty million pesos, for disclosure purposes; and (b) the RPT Committee and the Executive Committee, if the amount involved is fifty million pesos or more, for its review and approval. All matters discussed must be properly recorded in the minutes of the SMT, Executive Committee, or Board meetings;
4. Aside from the required approvals mentioned in item (3) above, material RPTs shall be submitted to the stockholders for confirmation in the annual or special stockholders' meeting;
5. To avoid potential or actual Conflict of Interest, the members of the SMT, RPT Committee, Executive Committee, and Board with personal interest in any RPT shall abstain from the review, approval, and management of such transaction or matter affecting the Corporation; and
6. Any renewal or material changes in the terms and conditions of RPTs shall be subject to the same review and approval process in this section.

B. Voting Requirements

The voting requirements for the approval of RPTs are as follows:

1. SMT Approval: A majority vote of the total members of the SMT is required to approve all non-material RPTs that are more than ₱1,000,000 and for non-material RPTs that are ₱1,000,000 or less, one or more members of SMT shall be required to approve in accordance with the approval limits established on bank transactions;

2. Executive Committee Approval: A majority vote of the total members of the Executive Committee is required to approve all non-material RPTs that amount to fifty million pesos or more;
3. RPT Committee Approval: A majority vote of the total members of the RPT Committee is required to approve (1) all nonmaterial RPTs that amounts to fifty million pesos or more; and (2) the endorsement of all material RPTs to the Board;
4. Board Approval: A majority vote of the total members of the Board, as appearing in the Corporation's Articles of Incorporation, is required to approve all material RPTs and be notified of all non-material RPTs; and
5. Shareholders' Confirmation: Confirmation of the stockholders holding or representing at least majority of the outstanding capital stock of the Corporation is required to confirm all material RTPs. All material and non-material RPTs previously approved by the SMT, Executive Committee, or the Board may, however, be vetoed, or its terms be modified, by the stockholders holding or representing at least two-thirds of the outstanding capital stock of the Corporation.

X. Whistle Blowing Mechanism

The Corporation shall foster and maintain a culture of integrity and transparency throughout the Corporation. To this end, any person but not limited to employees of the Corporation are enjoined to communicate legitimate concerns about illegal, unethical or questionable RPTs.

A. Procedure

The following procedures shall be observed:

1. Any person who has knowledge or strong suspicion of an illegal, unethical or questionable RPT, whether actual or potential, are requested to call or submit a written report to the RPT Committee. The person concerned may or may not disclose his identity;
2. The person need not substantiate his report with absolute proof or evidence of wrongdoing, but he/she should provide relevant details and documents, if available; and
3. The Audit and Risk Management Committee shall handle and resolve the whistleblower's report in accordance with its established rules and guidelines.

B. False or Malicious Reports

The Corporation reserves the right to impose sanctions on employees who make false reports maliciously, with an ulterior motive, or for personal gain. Subject to the Audit and Risk Management Committee's exercise of discretion, no sanction shall be imposed against employees who raise false alarm in good faith.

C. Protection for Whistleblowers

The Corporation shall not, in any case, disclose the identity of the employees concerned and the subject matter of their report. The Corporation shall also extend whatever assistance is needed by the employees concerned to ensure their security.

XI. Disclosure and Regulatory Reporting

The Corporation, through its Board, shall ensure adequate disclosure of any relevant information on RPTs in its annual report. Furthermore, the Corporation shall submit the following reports to the IC, if and when applicable:

- A. A report containing all the entities in the conglomerate structure where the Corporation belongs. The structure shall likewise disclose the beneficial owners of shares that are in the name of a PCD Nominee Corporation. The report shall be submitted to the IC within thirty (30) calendar days after the end of every calendar year; and
- B. A report on material exposures to Related Parties, which shall include the material RPTs of the Corporation's non-financial subsidiaries and affiliates within twenty (20) calendar days after the end of the referenced quarter. Supervised non-financial subsidiaries and affiliates of the Corporation will therefore be required to submit a report on their material RPTs to the Corporation, which will in turn submit the same to the IC.

XII. Policy Review and Implementation

This Manual shall be reviewed by the Compliance Officer as and when any changes are to be incorporated therein due to changes in regulation and/or amendments to existing laws. The Compliance Officer shall also ensure the proper implementation of this Manual across the Corporation's Subsidiaries and Affiliates.

XIII. Measure for Restitution of Losses and Penalties

- A. Proper disclosure is governed by standards of honesty and integrity and any violation will be considered breach. Directors and officers who fail to comply with the existing policies on RPT shall be subject to sanctions and penalties as may be prescribed by the appropriate committee and approved/confirmed by the Board.

- B. Non-compliance with the provisions of this Manual shall result in the nullification or revocation of any agreement or contract related to the RPT as determined and prescribed by the appropriate committee and approved/confirmed by the Board. In such case, the Corporation shall have the right to demand from the director, officer, employee, or Related Party concerned the restitution of losses or opportunity costs it incurred from such RPT. Furthermore, the director, officer, employee, or Related Party concerned shall also be subject to the corresponding procedures and penalties under the Corporation's Code of Conduct and relevant laws, as applicable.

AMENDED