

MAXICARE HEALTHCARE CORPORATION  
**MINUTES OF THE RELATED PARTY TRANSACTIONS  
COMMITTEE MEETING**

Boardroom, Maxicare Tower  
203 Salcedo Street, Legaspi Village, Makati City<sup>1</sup>  
12 July 2024, 1:30 P.M.

**PRESENT:**

ENRICO S. CRUZ  
TEODORO M. PANGANIBAN  
RICARDO V. MARTIN  
RIZALINA G. MANTARING

**ALSO PRESENT:**

ESTHER WILEEN S. GO  
BRIAN M. GO  
CHRISTIAN S. ARGOS  
MARIA TERESITA A. ESPALLARDO  
JASPER HENDRIK T. CHENG  
JERRY PEREZ  
ATTY. ANDREW FORNIER  
ATTY. MARY ZOELLI R. VELASCO  
RIZ GAURAN

**I. CALL TO ORDER AND DETERMINATION OF QUORUM**

Mr. Teodoro M. Panganiban called the meeting of the Related Party Transaction (“RPT”) Committee (the “Committee”) to order and presided over the same. The Assistant Corporate Secretary, Atty. Mary Zoelli R. Velasco, (“Atty. Velasco”) recorded the Minutes of the proceedings.

Atty. Velasco certified that notices were sent to all members of the Committee in accordance with Maxicare Healthcare Corporation’s (the “Corporation” or “Maxicare”) By-Laws. Since majority of the members of the Committee were present, the Assistant Corporate Secretary certified the existence of a quorum for the transaction of business at hand.

**II. APPROVAL OF THE MINUTES OF THE PREVIOUS MEETING**

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<sup>1</sup> The meeting was conducted virtually through video conferencing (Zoom Video Conferencing) pursuant to Securities and Exchange Commission Memorandum Circular No. 6-2020, dated 12 March 2020, and in accordance with the Corporation’s duly approved and adopted *Internal Rules of Procedures for the Conduct of the Board and Shareholders Meetings*.

The Minutes of the last Committee meeting held on 12 April 2024 was presented to the members for approval, a copy of which was previously distributed to the members of the Committee. Upon motion duly made and duly seconded, the Minutes of the meeting held on 12 April 2024 was approved.

### **III. MATTERS ARISING FROM THE MINUTES**

The members of the Committee requested Atty. Andrew Fornier (“Atty. Fornier”) to assess the materiality threshold, whether this percentage should still be maintained.

Atty. Fornier and the Corporation’s tax counsel was likewise asked to send an opinion regarding the drawdowns requested for MHSI on the implications (including tax) of granting such advance. An opinion was sent out on 16 July as indicated below.<sup>2</sup>

### **IV. REPORT ON RELATED PARTIES AND RPTs FOR THE QUARTER ENDED 30 JUNE 2024**

Mr. Jerry Perez, (“Mr. Perez”) the Corporation’s Assistant Vice President for Finance, reported on the current material RPTs for second quarter of 2024, as follows.

#### *Updated Materiality Threshold*

Before discussing the material RPTs, Mr. Perez discussed updating the RPT materiality threshold to \_\_\_\_\_, which is \_\_\_\_\_ of the total shareholders equity based on the 2023 Audited Financial Statements (“AFS”).

It was noted that the RPT exposure limits it was based on the unaudited total assets as of 30 June 2024 (“UTS”). With regard to the RPT Internal Limits, he explained that according to the RPT Manual, the aggregate exposure limit for a related party shall not exceed five percent (5%) of the Corporation’s total assets. The five percent (5%) of the total assets based on the UTS was \_\_\_\_\_.

Mr. Perez noted that none of the related parties exceeded the exposure limit. He also discussed that the aggregate exposure limit for all the related parties should not exceed twenty percent (20%) of the Corporation’s

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<sup>2</sup> This was emailed by Mr. Perez.

total assets, which was \$1,000,000. To date, the total related party balances did not exceed the aggregate exposure limit.

*Material RPTs for the second quarter ended 30 June 2024*

Mr. Perez reported the material transactions with the following related parties, for the quarter ended 30 June 2024:

Parent/Subsidiary/ Affiliate	Related Counterparty	between the parties	Transaction date	Type of Transaction	Amount	Terms	Rationale for entering into the Transaction
Parent	Pin An Holdings Corporation	Major shareholder (42.31%)	As of June 30, 2024	Outstanding balance of Capital stock - Preferred shares		Under terms and conditions allowed under the Corporation Code.	Shareholder as source of the Company's funding requirements.
Subsidiary	Maxicare Health Services, Inc (MHSI)	Subsidiary (Wholly owned)	As of June 30, 2024	Outstanding balance of investment in Subsidiary		Investment in a wholly owned subsidiary with health services operations.	Investment in a subsidiary that will operate medical clinics and provides various health services.
			As of June 30, 2024	Deposit to Healthcare Providers		Under ordinary healthcare provider terms and conditions.	Transactions were undertaken in the normal course of the business between an HMO and a primary care services provider.
			2nd Quarter of 2024	Healthcare Benefits and Claims - Outpatient		Under ordinary healthcare provider terms and conditions.	
Affiliate	Equicom Savings Bank	Affiliate	As of June 30, 2024	Time deposit		Under short-term time deposit terms and conditions	Transactions were undertaken in the normal course of the business.

- i. *Pin-An Holdings Corporation ("Pin-An") (major shareholder)*. During the covered period, the following transaction was reported: the outstanding balance on the subscription to Maxicare's preferred shares in the amount of \$1,000,000. The terms and conditions hereunder were in accordance with the Revised Corporation Code. The rationale for the transaction was that Pin-An was one of the sources of the company's funding requirements.
- ii. *Maxicare Health Services, Inc. ("MHSI") (wholly-owned subsidiary)*. The material transactions and balances reported were as follows: (i) outstanding balance of investment in a subsidiary that operates medical clinics and provides various health services, amounting to \$1,000,000, (ii) deposit to healthcare providers amounting to \$1,000,000, and (iii) healthcare benefits and claims – outpatient amounting to \$1,000,000.
- iii. *Equicom Savings Bank (affiliate)*. The material transactions and balances for the covered period pertained to the outstanding balance of time deposit account amounting to \$1,000,000. It was noted that the transactions were undertaken in the normal course of business. Mr. Perez noted that this item should not be considered as an RPT based on a previous comment in one of the Committee meetings, but this was nevertheless reported for the information of the Committee.

Mr. Perez likewise reported on the cumulative material RPTs with the following related parties for the quarter ended 30 June 2024:

Parent/Subsidiary/ Affiliate	Related Counterparty	Relationship between the parties	Type of Transaction	Amount	Terms	Rationale for entering into the Transaction
Subsidiary	Maxicare Health Services, Inc (MHSI)	Subsidiary (Wholly owned)	Healthcare Benefits and Claims - Outpatient		Under ordinary healthcare provider terms and conditions. Under ordinary healthcare provider terms and conditions.	Transactions were undertaken in the normal course of the business between an HMO and a primary care services provider.
Affiliate	Equicom Services Inc (formerly ONET)	Affiliate	Contractual services		Under ordinary service provider terms and conditions	Transactions were undertaken in the normal course of the business
Affiliate	Doctor Anywhere	Affiliate	Teleconsult		Under ordinary healthcare provider terms and conditions.	Provides teleconsultation to MHC members.

- i. *MHSI (wholly-owned subsidiary)*. The cumulative material transactions for the covered period amounted to .. The transactions were undertaken in the normal course of business between an HMO and a primary care services provider.
- ii. *Equicom Services, Inc. (affiliate)*. The cumulative material transactions and balances for the covered period pertained to the outstanding balance of contractual services of .. The transactions were undertaken in the normal course of business.
- iii. *Doctor Anywhere (affiliate)*. The cumulative material transactions for the covered period amounted to .. The transactions were entered to provide teleconsultation for the Corporation's members.

As requested by the Committee, Mr. Perez also presented the material RPTs based on a twelve-month projection:

Parent/Subsidiary/ Affiliate	Related Counterparty	Relationship between the parties	Type of Transaction	Amount as of June 30, 2024	12-Month Projected Amount	Terms	Rationale for entering into the Transaction
Subsidiary	Maxicare Health Services, Inc (MHSI)	Subsidiary (Wholly owned)	Healthcare Benefits and Claims - Outpatient			Under ordinary healthcare provider terms and conditions. Under ordinary healthcare provider terms and conditions.	Transactions were undertaken in the normal course of the business between an HMO and a primary care services provider.
Affiliate	Equicom Services Inc (formerly ONET)	Affiliate	Contractual services			Under ordinary service provider terms and conditions	Transactions were undertaken in the normal course of the business
Affiliate	Doctor Anywhere	Affiliate	Teleconsult			Under ordinary service provider terms and conditions	Transactions were undertaken in the normal course of the business

- i. *MHSI (wholly-owned subsidiary)*. The material related party transaction for the said period was projected to amount to

- ii. *Equicom Services, Inc. (affiliate)*. The material related party transaction for the said period was projected to amount to
- iii. *Doctor Anywhere (affiliate)*. The material related party transaction for the said period was projected to amount to

The following slide on Pin-An's outstanding balance was also presented:

Related Party	Relationship	Transaction Type	Transactions for 3-month period			YTD Total Transactions	Outstanding Balance as at June 30, 2024
			April - June 2024				
			(PHP)				
			Material	Immaterial	Total		
Pin-An Holdings Corporation	Major Stockholder (42.31%)	Cash dividends payable	-	-	-	-	(PHP)
		Capital stock - Preferred stock	-	-	-	-	-
		Total Pin-An Holdings	-	-	-	-	-

Mr. Panganiban clarified the meaning of “ordinary healthcare provider terms and conditions” in reference to the transactions with MHSI. Mr. Christian S. Argos (“Mr. Argos”) explained that this meant that MHSI was being treated similarly with other healthcare providers accredited by Maxicare, whether or not the hospital or clinic was a related party with regard to revolving funds, credit terms, and the like.

Mr. Ricardo V. Martin (“Mr. Martin”) asked whether the materiality thresholds applied to subsidiaries and whether MHSI was in breach of the individual limit. Mr. Perez confirmed that the threshold applied to subsidiaries and that MHSI was not in breach as the relevant amounts were the balance sheet accounts, which in the case of MHSI were only the following: (i) outstanding balance of investment in subsidiary that operates medical clinics and provides various health services, amounting to Million, and (ii) deposit to healthcare providers, amounting to

Ms. Rizalina Mantaring (“Ms. Mantaring”) noted that theoretically, the exposure to the related parties should include Maxicare’s investment in them. Mr. Perez agreed that the said two transactions were the only exposures to MHSI and the amounts were still within the limit.

Ms. Mantaring also asked the rationale behind the exposure threshold. She pointed out that it was quite limiting unless the related party was a high-risk company. She noted that the Bangko Sentral ng Pilipinas sets materiality thresholds for banks but there was no similar restriction for the Corporation’s industry. Ms. Maria Teresita Espallardo (“Ms. Espallardo”) responded that they will revisit the same and mentioned that the new Chief Legal Risk and Compliance Officer, Atty. Fornier could advise on such matter. Ms.

Mantaring also pointed out that the threshold or limitations set for the RPTs should be risk-related.

## V. MATTER FOR COMMITTEE APPROVAL AND ENDORSEMENT

Mr. Perez next discussed that Maxicare will fund MHSI to establish fifteen (15) primary care clinics. MHSI will receive revolving funds and advances. The initial advances will be non-interest bearing for one year, and taxes were still being assessed by their team.

### For RPT Approval and Endorsement: Revolving Funds/Advance Payments to MHSI

- Maxicare will provide funding to MHSI, its wholly owned subsidiary, to establish 15 new Primary Care Centers, bringing the total number of clinics to 35 by the end of 2024.
- The total funding amount of ₱100,000,000.00 is allocated as follows:

Particulars	Date	Amount
Revolving Fund	May 2024	₱100,000,000.00
1st Drawdown	July 2024	₱20,000,000.00
2nd Drawdown	August 2024	₱20,000,000.00
3rd Drawdown	September 2024	₱20,000,000.00

- Our proposed transaction involves providing additional funding to MHSI. The funding document is non-interest-bearing and will be on a one-year tenor. The necessary taxes will be paid for the transaction.
- [For RPT approval and endorsement to the Board: Provide funding advances to MHSI for clinic expansion and pay the necessary taxes.](#)

Mr. Perez said that there is a request for approval and endorsement to the Board of Directors to provide these advances to MHSI for its clinic expansion.

Mr. Panganiban clarified whether the revolving fund was a fixed loan or advance. Mr. Argos explained that this was actually a prepayment. He discussed that usually the hospitals and clinics operate on a cash basis with short contract terms. Thus, in order to secure more favorable payment terms, Maxicare would typically set up a revolving fund. He gave examples of hospitals which have a revolving fund with Maxicare, such as Makati Medical and Medical City.

Mr. Argos discussed that the clinics were funded by Maxicare. However, for tax purposes, licensing issues, and other various reasons, it was made into a wholly-owned subsidiary (MHSI). He explained that MHSI is now the largest single provider to Maxicare. MHSI would double its number of clinics next year. According to Mr. Argos, the current number of clinics drives the ability of Maxicare to contain estimated and current claims for the 2024 and 2025 budget, which was why MHSI would continue to build new clinics and Maxicare would be funding it. Mr. Argos also confirmed that the revolving funds were actually considered as advances.

Ms. Espallardo explained that the succeeding drawdowns would need to be approved by the Committee. The funding will also be provided for this year based on the scheduled drawdowns. Mr. Argos discussed that this was to support the clinic expansion approved by Executive Committee and the Board of Directors. He explained that this was the funding side, which will also require approval of the Committee and the Board of Directors.

Mr. Panganiban said that to note this transaction as advances rather than funding.

Mr. Brian M. Go (“Mr. B. Go”) asked whether the entire \_\_\_\_\_ would be treated as advance payment or would there be another form of classification. Ms. Espallardo explained that the \_\_\_\_\_ each will be documented by a debt document. It would be either an advances documents or a loan document. She and her team were still reviewing which document would be best and well-suited for the transaction. She also noted a possible Documentary Stamp Tax (“DST”) exposure for the said non-interest bearing document.

Mr. B. Go clarified whether these drawdowns cannot be all called as advanced payments. Ms. Espallardo explained that the revolving fund was part of the health provider contract and such cannot cover the entire \_\_\_\_\_ due to materiality concerns with a related party. She said that a transaction may be challenging to justify before the tax authorities.

Mr. Argos also said that another consideration would be the fairness and proportionality on how the other health services providers were being treated.

In relation to the discussion, Mr. Enrico S. Cruz (“Mr. Cruz”) asked whether the \_\_\_\_\_ was commensurate to the actual billings that Maxicare would need to pay MHSI compared to the other health service providers with a revolving fund. Mr. Argos responded that the \_\_\_\_\_ revolving fund was commensurate and then the \_\_\_\_\_ transaction was not. Thus, the latter transaction was treated differently and not a revolving fund transaction.

Mr. Cruz then suggested that the team should consult with the tax counsels for the non-interest bearing loan. He raised his concern that the transaction may be viewed as a donation and Maxicare might assessed donor’s tax. Mr. Argos said that this had been discussed with Atty. Fornier and Maxicare’s tax counsel that potentially when DST is computed the Bureau of Internal Revenue (“BIR”) has the authority to determine such amount. The BIR can

increase the value of the document and add interest if it is non-interest bearing. Therefore, there is no risk of it being considered as a donation but rather the potential tax exposure with the DST.

Mr. Argos said that the team shall continue to work with the tax counsel on this matter and that they were still studying on how the DST would be computed. As advised by the tax-counsel, in computing the DST, Maxicare may include the interest.

Mr. Cruz also advised to look at the financial impact to MHSI. He noted that it would be prudent to check the advances for the subscription group. Mr. Argos answered that there might be approvals needed from the Insurance Commission should Maxicare infuse additional capital into its subsidiary.

Mr. Cruz said that the approval of the Committee would be conditioned on the final structure of the funding. It was established that the [REDACTED] was a revolving fund and was determined to be commensurate, while the [REDACTED] was still to be determined. Mr. Argos asked whether they can confirm such via circulating an email and asked for a conditional approval, dependent on the final structure.<sup>3</sup>

<sup>3</sup> Mr. Perez sent out the requested clarificatory email on the advances 16 July 2024, 5:29 pm, which was approved by the Committee members. The email states the following:

*“Dear RPT Committee Members,*

*This is to supplement the discussion on the Revolving Fund and advances/funding to MHSI, a wholly owned subsidiary of Maxicare.*

The revolving funds are considered ordinary healthcare provider terms and conditions because Maxicare also provides revolving funds to other providers, where medical services provided to Maxicare members are charged and replenished later on. We will proceed with securing the approval of the Excom and Board of Directors for this matter.

For the funding, Maxicare will issue non-interest bearing advances to MHSI with a one-year tenor. Given the significance of the amounts, MHSI will pay DST on these advances to avoid potential disputes with the BIR.

Regarding Donor's Tax, it is recommended not to pay Donor's Tax on theoretical interest of intercompany loans based on the Supreme Court ruling in the CIR vs. Filinvest Development Corp. case. The BIR does not have the authority to impute theoretical interests in the absence of a written stipulation, and there is no donative intent from the lender, which negates the basis for Donor's Tax. Avoiding the payment of Donor's Tax prevents future implications of admitting foregone interest, which could lead to assessments of income tax and possibly VAT ( ) on the "foregone" interest.

*While acknowledging the potential risk of the BIR applying RMC 63-99, it is understood that this circular may not be commonly invoked. If it is applied, the situation can be managed accordingly. The Filinvest case serves as a definitive statement of the civil law doctrine that interest generally cannot be charged or imputed unless clearly expressed in the agreement. This case supports the position of not paying Donor's Tax on foregone interest.*



Ms. Mantaring pointed out that the Committee would be approving a reasonable funding for the fifteen (15) primary care centers. She asked what would hinder the Committee from approving the drawdowns. Mr. Cruz said that the drawdowns should be properly vetted and they are just seeking for the format of these drawdowns.

Ms. Mantaring then clarified that after the format has been finalized, whether the Committee can delegate to management the subsequent drawdowns and the Committee need not to approve every drawdown. This was affirmed by Mr. Cruz.

Mr. Argos explained that the mechanism as to how the drawdowns shall be settled will be akin to a loan. The only thing that was needed to be finalized was whether to charge taxes or not. According to Mr. Argos, the tax counsel (JG tax counsel) and Mr. Perez said that the downside of charging interest would be the Value-Added Tax and Creditable Withholding Tax, which would be creditable and deducted when MHSI pays interest expenses. Nonetheless, the risk was still being weighed.

Atty. Fornier added to the discussion regarding the final form of the MHSI transaction. He said that the only caveat he was able to identify was that according to a certain revenue memorandum order, when interest was not charged on a RPT, the BIR reserves authority to impose interest if BIR opines that there was an unfairness or an unfair advantage accorded to the other party based on the arm's length doctrine that would make the matter disadvantageous. Thus, charging of interest can be considered as an additional layer of protection. In that way, Maxicare would be given the opportunity to control that value instead of BIR imposing it and determining for themselves what constitutes reasonable interest.

This was noted by the Committee members.

In response to Mr. Panganiban's clarification, Ms. Argos explained that the drawdown was a special arrangement for MHSI while the revolving fund was part of the Corporation's regular course of business. Ms. Espallardo added

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*Maxicare will proceed with securing the Excom and Board of Directors' approval of the P600 million advances with the understanding that the benefits of these strategies outweigh the risks. Given the due diligence performed, management will move forward with issuing interest-free advances to MHSI. Any potential issues that arise will be addressed and managed accordingly. We hope that this meets the condition of your approval last July 12, 2024. We will take this up to Excom tomorrow for BOD approval."*

that the revolving funds offered to other health services providers were likewise non-interest bearing. According to Mr. Argos, this was a non-issue to the external auditors, BIR, and IC as it was a standard practice across the industry.

Mr. Panganiban asked whether Maxicare provided non-interest bearing loans to other health services providers. Ms. Espallardo responded that Maxicare did not. Therefore, Mr. Panganiban said that this should be studied further and it would take a few days to finalize. He confirmed with Atty. Fornier to provide a written opinion on the matter.

Mr. Cruz asked if there was a forecast on how MHSI expected to repay the of advances. According to Mr. Argos, the funds to repay Maxicare would be sourced from its operating profits and loan facilities. He explained that to avoid interest expense, the intention was to prevent MHSI from tapping into its loan facilities with commercial banks.

Mr. Argos said that the plan was by December, this would be paid in full by MHSI drawing down from those facilities. If there was an opportunity for them to pay part of it from their own income or internally generated funds, it would be considered at that point. Meanwhile, a secondary option would be to secure loans from a bank.

Mr. Panganiban reiterated the need for the written opinion from the tax counsel and Atty. Fornier considering the possible risk for this funding. Mr. Argos said this would be routed in the following week.

Mr. Martin said that the opinion or the recommendation needed to show how the risk will be addressed or mitigated because should the tax authorities decide to impute income on this transaction, it will be for three years and it will be accompanied by interests and penalties. He suggested that the opinion or recommendation squarely addresses how to mitigate or how to address that risk if we decide to provide funding without interest.

## **VI. OTHER MATTERS**

There were no other matters discussed.

## **VII. ADJOURNMENT**

There being no other matters discussed and upon motion duly seconded, the meeting was adjourned.

CERTIFIED TRUE AND CORRECT:

**ATTY. MARY ZOELLI R. VELASCO**

*Assistant Corporate Secretary*

ATTESTED BY:

**ENRICO S. CRUZ**

*Chairperson*

**TEODORO M. PANGANIBAN**

**RIZALINA G. MANTARING**

**RICARDO V. MARTIN**