



D.M. WENCESLAO & ASSOCIATES, INC.

MATERIAL RELATED PARTY TRANSACTIONS POLICY

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I. INTRODUCTION

To promote good governance and protect its minority investors, the Board of Directors of D.M. Wenceslao & Associates, Incorporated (“**Corporation**”) approved and adopted this Policy on Material Related Party Transactions (“**Policy**”) pursuant to SEC Memorandum Circular No. 10 Series of 2019, otherwise known as the Rules on Material Related Party Transactions for Publicly Listed Companies.

II. STATEMENT OF POLICY

Related party transactions are generally allowed, provided, that these are done in a sound and prudent manner. The Corporation is expected to exercise appropriate oversight and to implement an effective system in managing these transactions.

The Corporation shall ensure that no preferential treatment shall be given to related parties that are not extended to non-related parties under similar circumstances. Material related party transactions, as defined in this Policy, shall be subject to the assessment, review and approval process as set hereunder.

III. DEFINITION OF TERMS

For purposes of this Policy, the following definitions shall apply:

- 3.1 **Related Parties-** Covers the reporting PLC’s directors, officers, substantial shareholders, and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the reporting PLC. It also covers the reporting PLC’s parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.
- 3.2 **Substantial Shareholder-** Any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.
- 3.3 **Affiliate-** Refers to an entity linked directly or indirectly to the reporting PLC through any one or a combination of any of the following:

- 3.3.1 Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the PLC, or vice-versa;
 - 3.3.2 Interlocking directorship or officership; except in cases involving independent directors as defined under existing regulations;
 - 3.3.3 Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the reporting PLC and the entity; or
 - 3.3.4 Management contract or any arrangement granting power to the reporting PLC to direct or cause the direction of management and policies of the entity or vice-versa.
- 3.4 **Associate-** An entity over which the reporting PLC holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the reporting PLC has significant influence.
- 3.5 **Significant Influence-** The power to participate in the financial and operating policy decisions of the company but has no control or joint control of those policies.
- 3.6 **Control-** A person or entity controls a reporting PLC if and only if the person or entity has all of the following:
- 3.6.1 Power over the reporting PLC;
 - 3.6.2 Exposure, or rights, to variable returns from its involvement with the reporting PLC; and
 - 3.6.3 The ability to use its power over the reporting PLC to affect the amount of the reporting PLC's returns.
- 3.7 **Related Party Transactions-** A transfer of resources, services or obligations, between a reporting PLC and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
- 3.8 **Material Related Party Transactions-** Any related party transaction/s, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of a company's total assets based on its latest audited financial statement.
- 3.9 **Related Party Registry-** A record of the organizational and structural composition, including any change thereon, of the company and its related parties.
- 3.10 **Abusive material RPT-** Refers to material RPTs that are not entered at arm's length and unduly favor a related party.

IV. IDENTIFICATION OF RELATED PARTIES

The Corporation's related parties, as defined in this Policy, covers the reporting PLC's directors, officers, substantial shareholders, and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the reporting PLC. It also covers the reporting PLC's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

The Corporation's Audit and Risk Committee evaluates on an ongoing basis existing relation between and among businesses and counterparties to ensure that all related parties are continuously identified, Related Party Transactions (RPT) are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPT's and changes in relationships shall be reflected in the relevant reports to the Board and regulators/supervisors.

V. COVERAGE

This Policy shall cover any related party transaction/s of the Corporation, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of the Corporation's total asset based on its latest audited financial statement.

Transactions amounting to ten percent (10%) or more of the total assets that were entered with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in this Policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the material RPT to the requirements of this Policy.

VI. IDENTIFICATION, REVIEW AND APPROVAL OF MATERIAL RELATED PARTY TRANSACTIONS

A. The Related Party Transaction Identification Team composed of the Chief Legal Officer, Chief Financial Officer, Compliance Officer, Investor Relations Officer and the Internal Audit Head, **identifies** material RPTs by conducting a preliminary assessment of the transaction based on the below criteria prior to submitting a report to the Audit and Risk Committee for final evaluation thereof, to wit:

1. Complete name of the related party;
2. Relationship of the parties;
3. Financial or non-financial interest of the related parties;
4. Type and nature of transactions, and description of the assets involved;
5. Total assets of the Corporation as of the last audited financial statement;
6. Amount or contract price;
7. Percentage of the contract price to the total assets of the Corporation;
8. Collateral, if any;
9. Terms and conditions;
10. Rationale for entering into the transaction; and
11. Other necessary and material information to give the Audit and Risk Committee better understanding of the transaction.

B. The Audit and Risk Committee shall **review** the information on the report submitted to it by the Related Party Transaction Identification Team. In evaluating RPTs, the Committee considers, among others, the following:

1. The related party's relationship to the Corporation and interest in the transaction;
2. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
3. The benefits to the Corporation of the proposed RPT;
4. The availability of other sources of comparable products or services.
5. Whether the proposed RPT is based on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances.

C. All individual material RPTs that passed the preliminary assessment of the RPT Identification Team and review of the Audit & Risk Committee, shall be **approved** by at least two-thirds (2/3) vote of the Board of Directors, with at least a majority of the independent directors voting to approve the material RPT. In case that a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock. For aggregate RPT transactions within a twelve (12)- month period that breaches the materiality threshold of ten percent (10%) of the Corporation's total assets, the same Board approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same related party.

VII. PREVENTION OF POTENTIAL OR ACTUAL CONFLICTS OF INTEREST

Directors and officers with personal interest in the transaction shall fully and timely disclose any and all material facts, including their respective interests in the material RPT and abstain from the discussion, approval and management of such transaction or matter affecting the Corporation. In case they refuse to abstain, their attendance shall not be counted for purposes of assessing the quorum and their votes shall not be counted for purposes of determining majority approval.

VIII. GUIDELINES TO ENSURE ARM'S LENGTH TERMS

Before a material RPT is executed, the Board of Directors should appoint an external independent party to evaluate the fairness of the terms of the material RPTs. An external independent party may include, but is not limited to, auditing/accounting firms and third-party consultants and appraisers.

To ensure that material RPTs are at terms that promote the best interest of the company, material RPTs will also be subject to a price discovery mechanism which may include acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

IX. SELF-ASSESSMENT AND PERIODIC REVIEW OF POLICY

The Internal Audit Head shall conduct a periodic review of the effectiveness of the Corporation's system and internal controls governing material RPTs to assess consistency with Board approved policies and procedures. The resulting reports, including exceptions or breaches in limit, shall be communicated directly to the Audit and Risk Committee.

The Corporation's Compliance Officer shall ensure that the Corporation complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. He/she shall aid in the review of the Corporation's transactions and identify potential material RPT that would require review by the Board. He/she shall ensure that the Corporation's material RPT policy is kept updated and is properly implemented throughout the Corporation.

X. DISCLOSURE OF INTEREST IN MATERIAL RELATED PARTY TRANSACTIONS

The members of the Board, substantial shareholders, and officers shall fully disclose to the Board of Directors all material facts related to the material RPTs as well as their direct and indirect financial interest in any transaction or matter that may affect or is affecting the Corporation. Such disclosure shall be made at the board meeting where the material RPT will be presented for approval and before the completion or execution of the material RPT.

XI. WHISTLE BLOWING MECHANISM

The Corporation encourages all stakeholders to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable material RPTs.

The Internal Audit Head is primarily responsible to handle reports of illegal, unethical or questionable material RPTs. He/she shall keep the identity and the details of the report confidential. The Internal Audit Head carries out an investigation of the report with the assistance of other concerned departments, in confidentiality. Result of the investigation are presented to the Board for appropriate action.

XII. REMEDIES FOR ABUSIVE MATERIAL RELATED PARTY TRANSACTION

To cut losses and allow recovery of losses or opportunity costs incurred by the Corporation arising out of or in connection with the abusive material RPTs, the Corporation may be allowed to re-evaluate the abusive material RPTs using an effective price discovery system which includes, but is not limited to, opening the transaction to a bidding process, or publication of available property for sale. The Corporation may also recover the amount/contract price initially paid to the related party and sanction its erring personnel.

The Corporation will adhere to its Revised Manual on Corporate Governance in dealing with the interested directors or officers who shall be found to have been remised in their duties in handling material related party transactions, to wit:

1. In case of a first violation, the concerned individual/s shall be reprimanded;
2. In case of a second violation, the concerned individual/s shall be suspended from holding office; provided that the duration of such suspension shall be based on the reasonable discretion of the Board depending on the gravity of the violation;
3. In case of a third violation, the maximum penalty of removal from office shall be imposed.

XIII. DISCLOSURE AND REGULATORY REPORTING

The Corporation shall disclose in its Integrated Annual Corporate Governance Report (I-ACGR) a summary of the material RPTs entered during the reporting year. An Advisement

Report shall also be filed to the Commission of any material RPT within three (3) calendar days from the execution date of the transaction.

XIV. REPEALING CLAUSE

All previous policies of the Corporation in reference to material RPTs are repealed as of the coming into force of this Policy. Such repeal shall not affect the previous operation of any policies so repealed or affect the validity of any act done or right, privilege, obligation or liability acquired or incurred under or the validity of any contract or agreement made pursuant to any such policy prior to its repeal. All directors, officers and persons acting under any policy so repealed shall continue to act as if appointed under the provisions of this Policy and all resolutions of the shareholders or the board with continuing effect passed under any repealed policy shall continue to be valid until amended or repealed.

SIGNED BY:



DELFIN J. WENCESLAO JR.
Chairman of the Board



ATTY. MADELYN D. SARMIENTO
Compliance Officer