

# MANUAL ON CORPORATE GOVERNANCE

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Paramount Life & General Insurance  
Corporation

*This Manual is intended for adoption and compliance of the Corporation in its continuous endeavor to enhance its Corporate Governance practices and bring them closer to international standards.*

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**MANUAL ON CORPORATE GOVERNANCE**  
**OF**  
**PARAMOUNT LIFE & GENERAL INSURANCE CORPORATION**

The Board of Directors, Management, officers and staff of **Paramount Life & General Insurance Corporation** (hereinafter referred to as the "Corporation") hereby commit themselves to the principles and best practices contained in this Corporate Governance Manual (the "Manual"), and acknowledge that the same may guide the attainment of their corporate goals.

**ARTICLE I. OBJECTIVE**

Pursuant to the national policy to institute corporate governance reforms in order to achieve policyholder and market investor confidence and sustain the growth of the insurance industry, this Manual is hereby prepared for adoption and compliance of the Corporation.

This Manual primarily aims to enhance the corporate accountability of the Corporation and promote the interests of its stakeholders, specifically those of the policyholders, claimants and creditors. Furthermore, this shall institutionalize the principles of good corporate governance in the entire organization of the Corporation.

The Board of Directors and Management, employees and Shareholders believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

**ARTICLE II. DEFINITION OF TERMS**

The technical terms used in this Manual shall have the respective meanings as set forth below:

- A. *Board of Directors* - refers to the collegial body that exercises the corporate powers of the Corporation which is formed under the Corporation Code. It conducts all business, and controls or holds all properties of the Corporation.
- B. *Corporate Governance* - refers to the framework of rules, systems and processes in the Corporation that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates.

- C. *Corporation Code* - refers to the Corporation Code of the Philippines, including any amendments thereto.
- D. *Executive Director* - refers to a director who is at the same time appointed to head a department/unit within the Corporation.
- E. *Non-Executive Director* - refers to a member of the Board of Directors with non-executive functions.
- F. *IC* - refers to the Insurance Commission.
- G. *Independent Director* - refers to a person other than an officer or employee of the Corporation, its parent or subsidiaries, or any other individual having any relationship with the Corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he or she should be independent of Management and free from any business or other relationship that could materially interfere with the exercise of his or her independent judgment.
- H. *Independence* - refers to that environment which allows a person to carry out his or her work freely and objectively.
- I. *Internal Control* - refers to the process affected by the Corporation's Board of Directors, Management and other personnel, designated to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws, regulations, and internal control policies.
- J. *Management* - refers to the body given the authority to implement the policies determined by the Board in directing the course/business activities of the Corporation.
- K. *Non-audit work* - refers to other services offered by the external auditor to the Corporation that are not directly related and relevant to its statutory audit function. Examples include accounting, payroll, bookkeeping, reconciliation, computer project management, data processing or information technology outsourcing services, internal auditing, and services that may compromise the independence and objectivity of the external audit.
- L. *Objectivity* - refers to unbiased mental attitude that requires the person to carry out his or her work in such manner that he or she has an honest belief in his or her work product and that no significant quality compromises are made. Objectivity requires the person not to subject his or her judgment to that of others.
- M. *Internal Control Environment* - refers to the framework under which internal controls are developed, implemented, alone, or in concert with

other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the Corporation is exposed.

- N. *Internal Auditing* - refers to an independent, objective assurance and consulting activity designed to add value and improve the Corporation's operations. It helps the Corporation accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- O. *Standards for the Professional Practice of Internal Auditing (SPPIA)* - refers to the criteria by which the operations of an internal auditing group are evaluated and measured. They are intended to represent the practice of internal auditing as it should be, provide a framework for performing and promoting a broad range of value-added internal audit activities and foster improved organizational processes and operations.
- P. *Stakeholders* - refers to the group of company owners, officers and employees, policyholders, suppliers, creditors and the community.
- Q. *Substantial or Major Shareholder* – shall mean a person, whether natural or juridical, owning such number of shares that will allow him or her to elect at least one (1) member of the Board of Directors of the Corporation or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.
- R. *Majority Shareholder* – means a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of the Corporation.
- S. *Related Interests* – refers to individuals related to each other within the fourth consanguinity or affinity, legitimate or common law, and two or more company owned or controlled by a single individual or by the same family group or the same group of persons.

### **ARTICLE III. COMPLIANCE SYSTEM**

The compliance system of this Manual shall apply to the Board of Directors, the Board Committees, the Officers, the Compliance Officer, and the Auditors.

### **ARTICLE IV. BOARD OF DIRECTORS**

#### **Section 1. Composition and Size of the Board**

Compliance with the principles of good corporate governance shall start with the Board of Directors. The Board of Directors of the Corporation shall consist of such number as may be fixed in the Articles of Incorporation of the Corporation and any amendment thereto.

The Board shall endeavor to include a balance of Executive and Non-Executive Directors, including independent Non-Executive Directors, such that no individual or small group of individuals can dominate the Board's decision-making power. The Board shall likewise determine whether a Director is independent in character and judgment or there are relationships or circumstances which are likely to affect the Director's judgment.

The Board may consider the adoption of guidelines on the optimum number of directorships. The Chief Executive Officer (CEO) and other executive directors shall submit themselves to a low indicative limit (four or lower) on membership in other corporate Boards. The same low limit shall apply to independent, Non-Executive Directors who serve as full-time executives in other corporations. In any case, the capacity of Directors to serve with diligence shall not be compromised.

All Directors shall make decisions objectively in the interests of the Corporation. Non-executive Directors shall scrutinize the performance of Management in meeting agreed goals and objectives and monitor the performance report. They shall constructively challenge and help develop strategic proposals for the Corporation. They shall satisfy themselves of the integrity of financial information and financial control as systems of risk management are robust and defensible.

## **Section 2. Powers of the Board**

Unless otherwise provided by law, and subject to the provisions of any applicable agreement involving the Corporation and/or its Shareholders, the corporate powers of the Corporation shall be exercised, all business shall be conducted, and all property of the Corporation shall be controlled and held by the Board of Directors to be elected by and from among the Shareholders. The election of the Board of Directors shall be subject to such agreement involving the Corporation and/or its Shareholders regarding representation in the Board of Directors. Without prejudice to such powers as may be granted by law and subject to the Articles of Incorporation and any applicable agreement involving the Corporation and/or its Shareholders, the Board of Directors shall also have the following express powers:

- A. From time to time, to make and change rules and regulations not inconsistent with the Corporation's By-Laws for the management of its business and affairs;
- B. To purchase, receive, take, or otherwise acquire for and in the name of the Corporation any and all properties, rights, or privileges, including securities and bonds of other corporations, for such consideration and upon such terms and conditions as the Board may deem proper or convenient;
- C. To invest the funds of the Corporation in other corporations or for purposes other than those for which the Corporation was organized, whenever in the judgment of the Board of Directors the interest of the Corporation would thereby be promoted, subject to such Shareholders' approval as may be required by law;

- D. To incur such indebtedness as the Board may deem necessary, to issue evidence of indebtedness including without limitation, notes, deeds of trust, bonds, debentures, or securities, subject to such Shareholders' approval as may be required by law, and/or to pledge, mortgage or otherwise encumber all or part of the properties of the Corporation;
- E. To guarantee, for and in behalf of the Corporation, obligations of other corporations or entities in which it has lawful interest;
- F. To make provisions for the discharge of obligations of the Corporation as they mature, including payment for any property, or in stocks, bonds, debentures, or other securities of the Corporation lawfully issued for the purpose;
- G. To sell, lease, exchange, assign, transfer, or otherwise dispose of any property, real or personal, belonging to the Corporation whenever in the Board's judgment, the Corporation's interest would thereby be promoted;
- H. To establish pension, retirement, bonus, or other types of incentives or compensation plans for the employees, including the officers and Directors of the Corporation;
- I. To prosecute, maintain, defend, compromise, or abandon any lawsuit in which the Corporation or its officers are either plaintiffs or defendants in connection with the business of the Corporation;
- J. To delegate, from time to time, any of the powers of the Board which may lawfully be delegated in the course of the current business of the Corporation to any standing or special committee or to any officer or agent, and to appoint any person to be agent of the Corporation with such powers and upon such terms as may be deemed fit; and,
- K. To implement the Corporation's By-Laws and to act on any matter not covered by said By-Laws, provided such matter does not require the approval or consent of the Shareholders under the Corporation Code or other applicable law.

### **Section 3. Missions and Responsibilities of the Board of Directors**

Pursuant to IC Circular Letter No. 31-2005, the Board of Directors shall have the following missions and responsibilities:

- A. To approve corporate philosophy and mission;
- B. To review and approve the Management's strategic and business plans;
- C. To review and approve the Corporation's financial objectives, plans and actions;

- D. To oversee the conduct of the business to ensure proper management and fair and equitable dealings with the policymakers, claimants and creditors;
- E. To identify key business risks, establish operational risk-taking limits commensurate with financial capacity and technical capabilities for the Corporation's core activities, specifically underwriting, reinsurance, and investment, taking into consideration the pertinent provisions of the Insurance Code, and ensuring the implementation of appropriate systems to manage risks within said limits;
- F. To approve corporate policies on major areas of operations, including underwriting, investments, reinsurance and claims management;
- G. To monitor corporate performance against the strategic and business plans;
- H. To review performance of Senior Management, and succession planning, including the replacement, appointment, training and remuneration of senior executive officers;
- I. To ensure the adequacy and effectiveness of internal control and management information systems, and compliance with applicable laws, rules and regulations and the Corporation's own Articles of Incorporation and By-laws;
- J. To assess its own effectiveness in fulfilling its responsibilities;
- K. To develop and implement an investor relations program or adopt shareholder communications policy for the Corporation;
- L. To select and appoint officers who are qualified to administer insurance affairs soundly and effectively and to establish an adequate selection process for all personnel;
- M. To apply fit and proper standards on personnel. He or she must have integrity, technical expertise and experience in the institution's business, either current or planned, which should be the key considerations in the selection process;
- N. To establish an appropriate compensation package for all personnel that are consistent with the interest of all its Stakeholders;
- O. To review and approve material transactions not in the Corporation's ordinary course of business;
- P. To establish a system of check and balance which applies to the Board and its members;
- Q. To establish an appropriate reporting system so that the Board can monitor, assess and control the performance of management;

- R. To present to all its members and Shareholders a balanced and understandable assessment of the Corporation's performance and financial condition;
- S. To perform other functions prescribed by law or assigned to the Board in the Corporation's Articles of Incorporation and By-laws;
- T. To foster the long-term success of the Corporation; and,
- U. To sustain the Corporation's competitiveness and profitability in a manner consistent with its corporate objective and the best interests of its stockholders and other Stakeholders.

#### **Section 4. Qualifications of Directors and Independent Directors**

A. The following are the qualifications of Directors:

1. As a general rule, every Director must own at least one (1) share of the capital stock of the Corporation, which share shall stand in his name on the books of the Corporation. Any Director who ceases to be the owner of at least one (1) share of the capital stock of the Corporation shall, thereby, cease to be a Director. Pursuant to the provisions of Section 47 of the Corporation Code of the Philippines, the Corporation may provide in its By-laws for, among others, the qualifications of Directors. Hence, the By-laws of the Corporation may require that Directors shall own more than the qualifying common share in the Corporation.
2. The members of the Board of Directors of the Corporation shall possess the necessary skills, competence and experience, in terms of general management capabilities, preferably though not necessarily in the field of insurance or insurance-related disciplines.
3. In view of the fiduciary nature of insurance obligations, Directors shall also be persons of integrity and credibility.
4. Each Director shall be at least 21 years old at the time of his or her appointment.
5. Each Director must have attended a special seminar on corporate governance conducted by a training provider accredited by IC.
6. Each Director shall be at least a college graduate or have sufficient experience in managing the business to substitute for such formal education.

B. The following are the qualifications of independent Directors:

1. An independent Director shall be one who has not been an officer or employee of the Corporation, its subsidiaries or affiliates or related

interests for at least three (3) years immediately preceding his or her term or incumbency.

2. He or she shall not be related within the fourth degree of consanguinity or affinity, legitimate or common-law of any Director, officer, or majority Shareholder of the Corporation or any of its related companies.
3. He or she shall not be a Director or officer of the related companies of the Corporation's majority Shareholders.
4. He or she shall not be a majority Shareholder of the Corporation, any of its related companies, or of its majority Shareholder.
5. He or she shall not be acting as nominee or representative of any Director or substantial Shareholder of the Corporation, any of its related companies, or any of its substantial Shareholders.
6. He or she shall be free from any business or other relationships with the Corporation or any of its major Shareholders which could materially interfere with the exercise of his judgment, i.e. has not engaged and does not engage in any transaction with the institution, or any of its related companies or any of its substantial Shareholders, whether by himself or with other persons or through a firm of which he is a partner, Director or a Shareholder.

C. The following are term limits for Independent Directors:

1. Independent Directors can serve as such for five (5) consecutive years, provided that service for a period of at least six (6) months shall be equivalent to one (1) year, regardless of the manner by which the Independent Director position was relinquished or terminated;
2. After completion of the five (5) year service period, an Independent Director shall be ineligible for election as such in the Corporation unless he has undergone a "cooling off" period of two (2) years, provided that during such period, he has not engaged in any activity that under existing rules disqualifies him from being elected as Independent Director in the Corporation;
3. An Independent Director re-elected as such in the Corporation after the "cooling off" period can serve for another five (5) consecutive years under the conditions mentioned in item (1) above; and,
4. After serving as Independent Director for nine (9) years, he shall be perpetually barred from being elected as such in the Corporation, without prejudice to being elected as Independent Director in other corporations outside of the business conglomerate.

## **Section 5. Disqualification of Directors and Independent Directors**

- A. The following persons are permanently disqualified from holding a Director position:
1. Any person who has been finally convicted by a competent judicial or administrative body of any crime arising out of his relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
  2. Any person who has been convicted by final judgment of the court for violation of insurance laws;
  3. Any person finally convicted judicially or administratively of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false oath, perjury or other fraudulent act or transgression;
  4. Any person judicially declared to be insolvent, spendthrift or unable to enter into a contract;
  5. Directors, officers or employees of closed insurance companies or any insurance intermediaries who were responsible for such institution's closure as determined by IC;
  6. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in items (1) to (3); and,
  7. Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his or her election or appointment.

The following persons are temporarily disqualified from holding a Director position for a specific or indefinite period of time:

1. Persons who refuse to fully disclose the extent of their business interests when required pursuant to a provision of law or of a circular, memorandum or rule or regulation of IC. The disqualification shall be in effect as long as the refusal persists;
2. Directors who have been absent or who have not participated for whatever reason in more than fifty percent (50%) of all meetings, both regular and special of the Board of Directors during their incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding elections;

3. Persons convicted for offenses involving dishonesty, breach of contract or violation of insurance laws but whose conviction has not yet become final and executory;
4. Directors and officers of closed insurance companies and insurance intermediaries pending clearance from IC;
5. Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification by IC;
6. Directors who failed to attend the special seminar on corporate governance. This disqualification applies until the Director concerned had attended such seminar;
7. Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity;
8. Those under preventive suspension;
9. Persons with derogatory records with the NBI, court, police, Interpol and insurance authorities of other countries (for foreign directors) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of an insurance Director. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity; and,
10. Persons who are delinquent in the payment of their obligations as defined hereunder:
  - i. Delinquency in the payment of obligations means the obligations of a person with the Corporation or its related companies where he or she is a Director or officer; or at least two obligations with other insurance companies, under different credit lines or loan contracts.
  - ii. Obligations shall include all borrowings from the Corporation or its related companies obtained by:
    - a. A Director or officer for his or her own account or as the representative or agent of others or where he or she acts as a guarantor, endorser, or surety for loans from the Corporation;
    - b. The spouse or child under the parental authority of the Director or officer;

- c. Any person whose borrowings or loan proceeds were credited to the amount of, or used for the benefit of a Director or officer;
- d. A partnership of which a Director or officer, or his or her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and,
- e. A corporation, association or firm wholly-owned or majority of the capital is contributed by any or a group of persons mentioned in the foregoing items (a), (b), and (d).

The temporary disqualification shall subsist as long as the delinquency persists.

- B. An independent Director shall be disqualified during his or her tenure under the following instances:
  - 1. He or she becomes an officer or employee of the Corporation of which he or she is a member of the Board.
  - 2. His or her beneficial security ownership exceeds 10% of the outstanding capital stock of the Corporation.
  - 3. Fails, without justifiable cause, to attend at least 50% of the total number of Board meetings during his or her incumbency.

The Board of Directors shall disclose any relationship that can compromise a Director's independence.

## **Section 6. Duties and Responsibilities of Directors and Independent Directors**

A Director's office is one of trust and confidence. He or she shall act in a manner characterized by transparency, accountability and fairness. A Director shall have the following duties and responsibilities:

- A. To conduct fair business transactions with the Corporation and to ensure that personal interest does not affect Board decisions;
- B. Should not use his or her position to make profit or to acquire benefit or advantage for himself/herself and/or his or her related interests. Thus, he or she should avoid situations that may give rise to a conflict of interest and compromise his or her impartiality;
- C. To devote time and attention necessary to properly discharge his or her duties and responsibilities. A Director should devote sufficient time to familiarize himself or herself with the Corporation's condition and be knowledgeable enough to contribute meaningfully to the Board's work. He or she should attend and actively participate in Board and committee meetings, request and review meeting materials and seek clarifications when necessary;

- D. To act judiciously. Before deciding on any matter brought before the Board of Directors, he or she should thoroughly evaluate the issues, ask questions and seek clarifications when necessary;
- E. To exercise independent judgment. A Director should view each problem/situation objectively. When a disagreement with others occurs, he or she should carefully evaluate the situation and state his or her position. Corollary thereto, he or she should support plans and ideas that he or she thinks are beneficial to the Corporation;
- F. To have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-laws, the requirements of the Securities and Exchange Commission (SEC), IC and where applicable, the requirements of other regulatory agencies. He or she should keep himself or herself informed of industry developments and business trends in order to safeguard the Corporation's competitiveness;
- G. To observe confidentiality. A Director should observe confidentiality of non-public information acquired by reason of his or her position as Director. He or she should not disclose said information to any person without the authority of the Board; and,
- H. To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.

## **Section 7. Appointments to the Board**

There shall be formal, rigorous and transparent procedures for the selection and appointment of new directors to the Board. Appointments to the Board shall be made on merit and against subjective criteria. Careful deliberation and consideration shall be done to ensure that appointees have enough time for the job. This is particularly important in the case of Chairmanship. Plans shall be in place for orderly succession to the Board and that of the Senior Management level in order to maintain a balance of appropriate skills and experiences within the Corporation.

## **Section 8. Election/Re-election and Term**

All Directors shall be subject to votation by Shareholders at the Annual Shareholders' Meeting after their nomination, and shall hold office for one year and until their successors are elected and qualified. The sole right to nominate the members of the Board, which may have been reserved to a Shareholder under such agreement involving the Corporation and/or its Shareholders, shall be respected. The names of Directors submitted for election or re-election shall be accompanied by sufficient biographical details and any other relevant information to enable Shareholders to have knowledge of their decision on their election.

Each Director shall represent all Shareholders and shall be in a position to participate independently and objectively.

## **Section 9. Board Remuneration**

Levels of remuneration shall be sufficient to attract and retain the quality of Directors to run the Corporation successfully. A significant proportion of the Executive Directors' remuneration shall be so structured as to link rewards to corporate and individual performance. The performance-related elements of remuneration shall form a significant proportion of the total remuneration package of Executive Directors and shall be designed to align their interests with those of Shareholders and to give them keen incentives to perform at the highest levels.

On the other hand, levels of remuneration of Non-Executive Directors shall reflect their experiences, responsibilities, and performances. Remuneration for Non-Executive Directors shall not include share options. If options are granted, Shareholders' approval shall be sought in advance and any share acquired by way of an exercise of an option shall be held until at least one year after the Non-Executive Director leaves the Board. Holding of share options is relevant to determine the Non-Executive Director's independence.

Notice or contract periods shall be set at least one year or less. If it is necessary to offer longer notice or contract periods to new Directors recruited from outside, such periods shall be reduced to one year or less after the initial period.

There shall be formal and transparent procedures for developing policy on executive remuneration and for fixing the remuneration packages for individual Directors. No Director shall be involved in deciding his or her own remunerations.

The Corporation's financial report and/or proxy statements shall contain a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year.

The Board shall also review the existing Human Resources Development or Personnel Handbook to strengthen provisions on conflict of interest, salaries and benefit policies, promotion, and career advancement directories and compliance of the personnel concerned with all statutory requirements that must be periodically met in their respective posts.

## **Section 10. Performance Evaluation**

A formal and rigorous annual evaluation of the Board's own performances and that of its committees and individual Directors shall be undertaken. The Chairman shall act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of each Director. He may propose the appointment of new members to the Board or seek the resignation of Directors.

Performance evaluation of the Board, its committees and its individual Directors shall be conducted and reported. Meanwhile, performance evaluation of the Chairman shall be made by Non-Executive Directors, led by the senior independent Director, taking into account the views of Executive Directors.

## **Section 11. Information and Professional Development**

The Chairman shall be responsible for ensuring that the Directors receive accurate, timely, and complete information and that they continually update their skills, knowledge, and familiarity with the Corporation's goals in order to fulfill their roles in the Board and/or Board Committees. He or she shall likewise ensure that the Corporation provides adequate orientation process for new Directors. The Corporation shall provide the necessary resources required in developing and updating its Directors' knowledge and capabilities.

## **ARTICLE V. BOARD COMMITTEES**

To aid in complying with the principles of good corporate governance, the Board of Directors shall constitute committees. Each of the Board Committees shall report regularly to the Board of Directors.

### **Section 1. Executive Committee**

The Board shall establish an Executive Committee to supervise the affairs of the Corporation and to implement such policies and directives of, and exercise such powers as may be delegated to it by, the Board, during the intervals between the meetings of Directors. Subject to the approval and/or revision by the Board, this Committee shall, during such intervals, possess and exercise all the powers of the Board in the management of all the business, affairs, and property of the Corporation.

The Executive Committee shall be composed of the President and at least three other members to be selected by the Board. Three members of the Committee shall constitute a quorum for the transaction of business.

### **Section 2. Audit Committee**

The Audit Committee shall be composed of at least three members selected by the Board who have adequate understanding or competence of the Corporation's financial management systems and environment. It shall perform the following functions, in addition to such other functions as may be delegated upon it by the Board of Directors:

- A. To check all financial reports against their compliance with both the internal financial management handbook and pertinent accounting standards;
- B. To perform oversight financial management functions, specifically in the areas of managing the credit, market, liquidity, operational, legal, and other risks of the Corporation;
- C. To pre-approve all plans, scope, and frequency of audits before the conduct of external audit;
- D. To perform direct interface functions with the internal and external auditors; and,

- E. To endeavor to elevate the Corporation's accounting and auditing processes, practices, and methodologies to international standards.

### **Section 3. Compensation Committee**

The Compensation Committee shall be composed of at least three members selected by the Board, one of whom shall be the Human Resources Director or Manager (who may or may not be a voting member of the Committee). It shall have the following functions, in addition to such other functions as may be delegated upon it by the Board, and such other functions as may be imposed by law or regulations:

- A. To establish a formal and transparent procedure for developing a policy on executive remuneration, ensuring that compensation is in a sufficient level to attract and retain executives needed to run the Corporation successfully, links rewards to corporate and individual performance, and in general is consistent with the Corporation's culture, strategy, and control environment;
- B. To develop a form for "Full Business Interest Disclosure" as part of the pre-employment requirements for all incoming executives which, among others, compel all executives to declare all their existing business interests or shareholdings that may directly or indirectly conflict with their duties to the Corporation; and,
- C. To cause the enactment of a Personnel Handbook which shall contain policies and rules on conflict of interest, salaries, benefits, promotion, career advancement, and discipline, among others.

### **Section 4. Nomination Committee**

The Nomination Committee shall be composed of at least three members selected by the Board. It shall review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. It should prepare a description of the roles and capabilities required of a particular appointment.

The Nomination Committee shall consider the following guidelines in the determination of the number of directorship for the Board:

- A. Nature of the business of the corporation, where he is a Director;
- B. Age of the Director;
- C. Number of directorships/active memberships and officerships in other corporations; and,
- D. Possible conflicts of interest.

## **Section 5. Other Committees**

The Board of Directors may establish or appoint any other committees which severally shall have and exercise such powers and duties as shall be conferred upon them respectively by the Board.

## **ARTICLE VI. OFFICERS**

### **Section 1. Election/Appointment**

Immediately after their election, the Board shall formally organize by electing the Chairman, the President, one or more Vice Presidents, the Treasurer, and the Secretary, at said meeting. The Board may, from time to time, appoint such other officers as it may determine to be necessary and proper. Any two or more positions may be held concurrently by the same person, except that no one shall act as President and Treasurer or Secretary at the same time.

### **Section 2. Chairman of the Board**

The Chairman of the Board is under a duty to exercise his or her powers in utmost good faith and shall have the responsibility for the formulation of corporate policies. His or her functions shall consist as follows:

- A. To preside at the meetings of the Directors and Shareholders;
- B. To ensure that the views of the Shareholders are communicated to the Board;
- C. To discuss governance and strategies with major Shareholders;
- D. To represent the Corporation at all functions and proceedings;
- E. To execute on behalf of the Corporation all contracts, agreements, and other instruments affecting its interests which require the approval of the Board, except as otherwise directed by the Board; and,
- F. To perform such other duties as are incidental to his or her office or are entrusted to him or her by the Board.

If the positions of Chairman and Chief Executive Officer (CEO) are not separate and matters for resolution of the Board involve the accountability of Management and there is a perceived conflict of interest in relation thereto, the Chairman must appoint a lead Director from among the independent Directors to temporarily preside in the meeting to ensure the independence of the Board.

### **Section 3. Corporate Secretary**

The Secretary must be a resident and a citizen of the Philippines. He or she shall be the custodian of and shall maintain the corporate books and records and shall be the

recorder of the Corporation's formal actions and transaction. He or she shall have the following specific powers and duties:

- A. To record and see to the proper recording of the minutes and transactions of all meetings of the Directors and Shareholders and maintain minute books of such meetings in the form and manner required by law;
- B. To keep or cause to be kept record books showing the details required by law with respect to the Certificates of Shares of the Corporation, including ledgers and transfer books showing all the Shares of the Corporation subscribed, issued, and transferred;
- C. To keep the corporate seal and affix it to all papers and documents requiring a seal, and attest by his or her signature to all corporate documents requiring the same;
- D. To attend to the giving and serving of all notices of the Corporation required by law or its By-Laws;
- E. To certify such corporate acts, countersign corporate documents or certificates, and make reports and statements as may be required of him or her by law or by government rules and regulations;
- F. To act as the inspector at the election of Directors and, as such, to determine the number of shares outstanding and entitled to vote, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and to receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count, and tabulate all votes, ballots, or consents, determine the result and do such acts as are proper to conduct the election or vote. The Secretary may assign the exercise or performance of any or all of the foregoing duties, powers, and functions to any other person or persons, subject to his supervision and control; and,
- G. To perform such other duties as are incident to his office or as may be assigned to him by the Board or the President.

## **ARTICLE VII. COMPLIANCE OFFICER**

To ensure adherence to corporate governance principles and leading practices, the Board of Directors shall appoint a Compliance Officer who shall hold at least the position of Vice-President or its equivalent. He or she shall have direct reporting responsibilities to the Chairman of the Board.

The Compliance Officer shall perform the following functions and duties:

- A. To monitor compliance with the provisions and requirements of this Manual;

- B. To appear before the IC upon summon on similar matters that need to be clarified by the same;
- C. To determine violation(s) of the Manual and recommend penalty for violation thereof for further review and approval of the Corporate Governance Committee and the Board;
- D. To prepare and issue a report on "Corporate Governance" or any similar and/or related requirement with IC in compliance with the promulgated rules and regulations or any amendments thereto by the same;
- E. To coordinate, monitor and facilitate compliance with existing laws, rules and regulations; and,
- F. To identify, monitor and control compliance risks.

## **ARTICLE VIII. AUDITORS**

### **Section 1. Internal Auditors**

The Corporation shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, Senior Management, Shareholders and Stakeholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with. The Internal Audit should be able to add value and improve the Corporation's operations, help the Corporation accomplish its objectives, and bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Internal Auditor(s) shall report to the Audit Committee. Internal auditor(s) shall report that their activities are conducted in accordance with the Standards for the Professional Practice of Internal Auditing. Otherwise, they shall disclose to the Board and Senior Management that it has not yet achieved full compliance with the standards for the professional practice of internal auditing.

### **Section 2. External Auditors**

The external auditors shall enable an environment of good corporate governance as reflected in the financial records and reports of the Corporation. At each Annual Stockholders' Meeting, the external auditor(s) of the Corporation for the ensuing year shall be appointed. The external auditor(s) shall examine, verify, and report on the earnings and expenses of the Corporation and shall audit and certify the financial statements of the Corporation in accordance with International Financial Reporting Standards, in addition to generally accepted accounting principles practices in the place of business of the Corporation. Only the local affiliate of an internationally reputable accounting firm, satisfactory to all Shareholders may qualify for appointment as such external auditor.

The reason(s) for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the company's financial report. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which if not resolved to the satisfaction of the former auditor, would have caused making reference to the subject matter of the disagreement in connection with its report.

The external auditor cannot at the same time provide the services of an internal auditor to the same client. Other non-audit work should not be in conflict with the functions of the external auditor.

The audit partner-in-charge of the Corporation's account will be rotated every three years. The remuneration of the external auditor(s) shall be determined by the Board.

## **ARTICLE IX. INTERNAL CONTROL AND RISK MANAGEMENT**

### **Section 1. Control Environment of the Corporation**

The control environment of the Corporation is composed of: (i) the Board of Directors which ensures that the Corporation is appropriately and effectively managed and controlled; (ii) a Management that actively manages and operates the Corporation in a sound and prudent manner; (iii) the organizational and procedural controls supported by an effective management information system and risk management reporting system; and, (iv) the independent audit mechanisms to monitor the adequacy and effectiveness of the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations and contracts.

The Board shall ensure that an effective system of control is in place for safeguarding the Corporation's assets. Major risks facing the Corporation which are likely to affect its performance and financial condition (including but not limited to underwriting risk, reinsurance risks, investment risk, geographical risk, operational risk, and legal risk) and the approach taken by Management in dealing with these risks, shall be reported to the Board to enable the latter to effectively address said risks.

### **Section 2. Internal Control Responsibilities of the Board**

The minimum internal control mechanisms for the Board of Directors' oversight responsibility may include:

- A. Defining the duties and responsibilities of the CEO;
- B. Selecting or approving an individual with appropriate ability, integrity and experience to fill the CEO role;
- C. Reviewing proposed Senior Management appointments;

- D. Regularly reviewing the system of securing adherence to key internal policies as well as significant laws and regulations that apply to it. An effective and comprehensive internal audit of the Corporation's internal control system shall be carried out by independent and competent staff. Audit findings and recommendations shall be reported to the Board and the Senior Management level of the Corporation;
- E. Protecting Shareholders' value through adequate financial controls. The Board shall foster and encourage a corporate environment of strong internal control, fiscal accountability, high ethical standards and compliance with the law and code of conduct;
- F. Ensuring the selection, appointment and retention of qualified and competent Management; and,
- G. Reviewing the Corporation's personnel and human resource policies and sufficiency, conflict of interest situations, changes to the compensation plan for employees and Officers, and Management succession plan.

### **Section 3. Risk Management Responsibilities of the Board**

The responsibilities of the Board in connection with risk management related matters are as follows:

- A. To review and consider the risk management policies of the Corporation from time to time and recommend appropriate changes, if necessary;
- B. To undertake a periodic review of delegated authorization and control levels; and,
- C. To review, with the Senior Management, key policies and procedures for the effective identification, measurement, monitoring, and controlling of different forms of risk such as operational, financial, and strategic risks, in consultation with concerned department heads of the Corporation.

## **ARTICLE X. ACCOUNTABILITY AND AUDIT**

### **Section 1. Accountability of the Board and Management**

The Board of Directors is primarily accountable to the Shareholders. It should provide the Shareholders with a balanced and understandable assessment of the Corporation's performance, position, and prospects on a regular basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.

The Management is primarily accountable to the Board. It should provide all members of the Board with a balanced and understandable account of the Corporation's performance, position, and prospects on a regular basis. This responsibility should extend to financial reports to IC. Management should also be responsible for formulating rules

and procedures on internal control and financial operations in accordance with the following guidelines:

- A. Ensure timely and accurate disclosure of all material matters, including the financial condition, performance, ownership, and governance of the Corporation;
- B. Provide all parties having legitimate interest in the Corporation with a fair and timely cost-efficient access to relevant information. Key financial information should be readily available to Shareholders, policyholders, creditors, and claimants;
- C. Ensure faithful compliance with the financial and other reportorial requirements under the Insurance Code using a standard format provided by IC;
- D. Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
- E. Report that the business is a going concern, with supporting assumptions and qualifications, if necessary;
- F. Maintain an effective system of internal control that will ensure the integrity of the financial reports and protection of the Corporation's assets for the benefit of all Shareholders and other Stakeholders; and,
- G. Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls encompassing the Corporation's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts.

## **Section 2. Public Accountability**

As a custodian of public funds, the Corporation shall ensure that their dealings with the public are always conducted in a fair, honest, and equitable manner. Thus,

- 1. Officers shall avoid conflicts of interest, and;
- 2. Officers shall not engage in any unfair or deceptive acts or conduct that constitutes unfair trade practices detrimental to policyholders and claimants.

## **Section 3. Related Party Transaction**

Overlapping interests in the insurance entity shall be disclosed to the Board and any material transaction involving such interests shall be similarly disclosed. Related party transactions shall be conducted at arms-length and on terms that are at least

comparable to normal commercial practices to safeguard the best interest of the Corporation, its policyholders, creditors and claimants. In all cases, the provisions of Title 20, Chapter III of the Insurance Code shall be complied with. Related party transactions shall be disclosed fully to the Board. Prior Board approval shall be obtained for related party transactions that are material in nature. The Board of Director shall abstain from participating in the board discussion on a particular agenda when he/she is conflicted.

## **ARTICLE XI. SHAREHOLDERS' RIGHTS AND PROTECTION OF MINORITY SHAREHOLDERS' INTEREST**

The Corporation recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore, the following Sections provided hereunder are for the guidance of all internal and external parties concerned, as governance covenant between the Corporation and all its investors, and shall cover the rights of the Shareholders which the Board commits to respect.

### **Section 1. Dialogue with Shareholders**

There shall be a dialogue with Shareholders based on the mutual understanding of objectives. The Board as a whole has the responsibility for ensuring that a satisfactory dialogue with Shareholders takes place. The Board must maintain an effective communications policy that enables both the Board and management to communicate effectively with its Shareholders, Stakeholders and the general public. This policy must effectively interpret the operations of the Corporation to the Shareholders and must accommodate feedback from them, which should be factored into the Corporation's business decisions. The Board shall keep in touch with Shareholders' opinion in whatever way it is most practical and efficient.

- A. Non-Executive Directors shall be offered the opportunity to attend meetings with major Shareholders and shall be expected to attend when requested by major Shareholders.
- B. The senior independent Director shall attend sufficient meetings with major Shareholders to listen to their views in order to develop a balanced understanding of the issues and concerns of major Shareholders.

### **Section 2. Voting Rights**

Conformably with the provisions of the Articles of Incorporation of the Corporation, only the holders of the common shares shall have the right to vote at the meetings of Shareholders. Each Shareholder holding or owning common shares shall be entitled to one vote for each common share held by him, and registered in his or her name on the books of the Corporation on record date, or in the absence of a record date, at the time of the meeting. Holders of preferred shares, if any, shall be entitled to vote in the instances provided by the law or the Articles of Incorporation.

Any Shareholder entitled to vote may vote in person or by proxy authorized in writing and filed with the Secretary.

### **Section 3. Pre-emptive Rights**

All Shareholders of the Corporation shall enjoy pre-emptive right to subscribe to all issues or disposition of shares of any class, in proportion to their respective shareholdings, unless such right is denied by the Articles of Incorporation or an amendment thereto. However, such pre-emptive right shall not extend to shares to be issued in good faith with the approval of the Shareholders representing two-thirds (2/3) of the outstanding capital stock, in exchange for property needed for corporate purposes, or in payment of a previously contracted debt.

### **Section 4. Power of Inspection; Books to be Kept**

The Corporation shall keep and carefully preserve a record of all business transactions, and minutes of all meetings of Shareholders or members, and of the Board of Directors. The records of all business transactions of the Corporation, and the minutes of any meeting shall be open to the inspection of any Director or Shareholder at reasonable hours on business days, and he or she may demand, in writing, for a copy of excerpts from said records or minutes, at his or her expense. Shareholders may be furnished with copies of financial reports, without cost or restrictions.

### **Section 5. Right to Financial Statements**

Pursuant to Section 75 of the Corporation Code, the Corporation shall furnish to the Shareholders its most recent financial statement, which shall include a balance sheet as of the end of the last taxable year, and a profit or loss statement for said taxable year, showing in reasonable detail its assets and liabilities and the results of its operations.

At the regular meeting of Shareholders, the Board of Directors shall present to such Shareholders a financial report of the operations of the Corporation for the preceding year, which shall include financial statements, duly signed and certified by an independent certified public accountant.

### **Section 6. Right to Information**

The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the Directors and officers, and certain other matters such as their holdings of the Corporation's outstanding shares, dealings with the Corporation, relationships among Directors and key officers, and the aggregate compensation of Directors and officers.

The minority Shareholders shall be granted the right to propose the holding of a meeting in accordance with the provisions of the By-laws of the Corporation, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

The minority Shareholders shall have access to any and all information relating to matters for which the Management is accountable for, and to those relating to matters for which the Management shall include such information and, if not included, then the

minority Shareholders shall be allowed to propose to include such matters in the agenda of Shareholders' meeting, being within the definition of "legitimate purposes".

### **Section 7. Right to Dividends**

The Board of Directors of the Corporation may declare dividends out of the unrestricted retained earnings which shall be payable in cash, in property, or in stock to all Shareholders owning common shares on the basis of outstanding common stock held by them: *Provided*, That any cash dividends due on delinquent stock shall first be applied to the unpaid balance on the subscription plus costs and expenses, while stock dividends shall be withheld from the delinquent Shareholder until his or her unpaid subscription is fully paid: *Provided further*, That no stock dividend shall be issued to the holders of common stock without the approval of Shareholders representing not less than two thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose.

### **Section 8. Appraisal Right**

Pursuant to Section 81 of the Corporation Code, Shareholders of the Corporation shall have appraisal right under any of the following circumstances:

- A. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any Shareholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- B. In case of sale, lease, exchange, transfer, mortgage, pledge, or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and,
- C. In case of merger or consolidation.

It shall be the duty of the Directors to promote Shareholders' rights, remove impediments to the exercise of Shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of Shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to Shareholders participating in meetings and/or voting in person.

The Directors shall pave the way for the electronic filing and distribution of Shareholder information necessary to make informed decisions, subject to legal constraints.

### **Section 9. Annual Stockholders' Meeting**

The Board shall use the Annual General Meeting or Annual Stockholders' Meeting to communicate with investors, including institutional investors, and encourage their participation. The Corporation shall count all proxy votes and, except where a poll is called, shall indicate the level of proxies lodged on each resolution, and the balance for

and against the resolution and the number of abstentions, after it has been dealt with on a show of hands. The Corporation shall ensure that votes cast are properly received and recorded.

The Board shall propose a separate resolution at the Annual Stockholders' Meeting on each material issue. The Chairman, Directors, and members of the Audit, Compensation, and Nomination Committees shall be present at the Annual Stockholders' Meeting to answer questions. Notices including the latest annual financial statements of the Corporation shall be given to Shareholders at least 15 days in advance.

## **ARTICLE XII. REPORTORIAL OR DISCLOSURE SYSTEM OF CORPORATION'S CORPORATE GOVERNANCE POLICIES**

Consistent with a disclosure-based approach to implementation and enforcement, the Corporation shall make a general disclosure of its corporate governance practices and submit to IC through its Compliance Officer.

All material information about the Corporation which could adversely affect its viability or the interest of its Shareholders and other Stakeholders should be disclosed in a timely manner; and where the Insuring Public is concerned, be publicly and timely disclosed. Such information shall include but may not be limited to financial reports, changes in Board composition, shareholdings of Directors, and changes in ownership.

The Board shall commit at all times to fully disclose any required information and cause the filing of such for the interest of the Corporation's Shareholders and other Stakeholders.

## **ARTICLE XIII. COMMUNICATION PROCESS**

This Manual shall be available for inspection by any Shareholder of the Corporation at reasonable hours on business days.

All Directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

An adequate number of printed copies of this Manual must be reproduced under the supervision of the Human Resources Department, with a minimum of at least one (1) hard copy of the Manual per department.

## **ARTICLE XIV. MONITORING AND ASSESSMENT**

The Board endeavors to comply at all times with the principles set out in this Manual. In case of conflict between the Code of Corporate Governance issued by the IC and this Manual, the Code shall prevail. If the conflict is such that the affected provision of this Manual is rendered invalid, the rest of its provisions shall remain valid.

This Manual shall be subject to review in such frequency as may be determined by the Board of Directors.

#### **ARTICLE XV. COMPLIANCE WITH THE MANUAL**

The Corporate Governance Committee shall be responsible for determining violation(s) of this Manual, and shall, after due notice and hearing, prepare an evaluation thereof and recommend to the Board of Directors the imposition of the corresponding penalty for such violation. The decision of the Board of Directors shall be final and non-appealable.