



## **CORPORATE GOVERNANCE MANUAL**

### **SECTION 1. INTRODUCTION**

**BETHEL GENERAL INSURANCE AND SURETY CORPORATION**, its Board, executive officers and staff jointly commit themselves to adhere to the principles of corporate governance consistent with its Code of Conduct. Transparency, Accountability and Fairness are the basic foundation principles of corporate governance which the company will adhere in all of its business dealings to its clients, stockholders, business partners, employees, to the public and environment.

The Board and the executive officers have common understanding that corporate governance is an important tool towards a safe and sound business practice. Consequently, they commit themselves to cascade this corporate governance to the entire organization and undertake every effort necessary to create awareness within the organization to ensure that the principles of transparency, accountability and fairness are indispensable in conducting the day-to-day business of the company.

### **SECTION 2. OBJECTIVE**

This Policy aims to ensure observance and compliance of the basic principles of good corporate governance in conformity with standards required by regulatory government agencies.

### **SECTION 3. DEFINITION OF TERMS**

- A.** *Board of Directors or Board* - refers to the collegial body that exercises the corporate powers of the corporation and conducts all business and controls or holds all property of the corporation.
- B.** *Corporate Governance* - refers to a system whereby shareholders, creditors and other stakeholders of the company ensure that management enhances the value of the corporation as it competes in an increasingly global market place.
- C.** *Independent Director* - refers to a person other than an officer or employee of the corporation 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 directors' fees and shareholdings, he should be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment.

- D. *Management*** - refers to the body given the authority to implement the policies determined by the Board in directing the course/business activity/ies of the corporation.
- E. *Executive Director*** - refers to a director who is at the same time appointed to head a department/unit within the corporate organization.
- F. *Non-executive Director*** - refers to a Board member with non-executive functions.
- G. *Non-audit Work*** - refers to other services offered by the external auditor to a 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.
- H. *Internal Control*** - refers to the process effected by a company's Board of Directors, management and other personnel, designed 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 policies.
- I. *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 company is exposed.
- J. *Internal Auditing*** - refers to an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- K. *Internal Audit Department*** - refers to a department, division, team of consultants, or other practitioner(s) that provide independent, objective assurance and consulting services designed to add value and improve an asorganization's operations.
- L. *Chief Audit Executive/ Chief Internal Auditor*** - refers to the top position within the organization responsible for internal audit activities. In the

case where internal audit activities are obtained from outside service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, and follow-up of engagement results.

- M.** *Independence* - refers to that environment which allows the person to carry out his/her work freely and objectively.
- N.** *Objectivity* - refers to unbiased mental attitude that requires the person to carry out his work in such a manner that he has an honest belief in his work product and that no significant quality compromises are made. Objectivity requires the person not to subordinate his judgment to that of others.
- O.** *Standards for the Professional Practice of Internal Auditing* - refers to the criteria by which the operations of an internal auditing department 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.** *Related parties* - covers the company'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 company. It also covers the company's affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.
- Q.** *Substantial Shareholder* - any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of the capital stocks.
- R.** *Significant Influence* - is the power to participate in the financial and operating policy decisions of the company but has no control or joint control of those policies.
- S.** *Related party transactions* - a transfer of resources, services or obligations between a company and its 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.
- T.** *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.
- U.** *Materiality Threshold* - refers to related party transaction which is equivalent to at least or more than ten percent (10%) of the company's total assets based on its latest audited financial statement.

- V. *Risk Management* – is a process to minimize, if not eliminate, the adverse effect of a financial loss by (a) identifying potential sources of loss; (b) measuring the financial consequences of a loss occurring; and (c) using controls to minimize actual losses of their financial consequences.

## **SECTION 4. CORPORATE GOVERNANCE STRUCTURE**

### **A. Board of Directors**

The Board is primarily responsible for the governance of the corporation. It needs to be structured so that it provides an independent check on management. As such, it is vitally important that a number of board members be independent from management.

In the same manner, every employee of the entire organization is expected to embrace the same degree of commitment to the desired level of corporate standards.

#### **(i). Composition of the Board and the Independent Directors**

The Board shall be composed of nine (9) members who are elected by the stockholders as provided for in the Amended Articles of Incorporation and Amended By-Laws.

The Board shall have a balance of executive and non-executive directors (including independent non-executives), having a clear division of responsibilities such that no individual or small group of individuals can dominate the Board's decision making.

The non-executive directors should be of sufficient qualifications, stature and number to carry significant weight in the Board's decisions. Non-executive directors considered by the Board to be independent shall be identified in the annual report.

The Company shall have at least two (2) independent directors and/or twenty percent (20%) of the total number of the members of the Board. Any fractional result from applying the required minimum proportion shall be rounded-up to the nearest whole number.

#### **a. Independent Director**

An Independent Director shall mean 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 could 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 should be independent of management and free from any business or other relationship that could materially interfere with the exercise of his independent judgment.

An independent director shall refer to a person who –

- a1.** Is not or was not a regular director, officer or employee of the company, during the past three (3) years counted from the date of election;
- a2.** Is not or was not a regular director, officer or employee of the company's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
- a3.** Is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one seat in the board of directors of the company, or any of its related companies or any of its substantial shareholders;
- a4.** Is not a relative by affinity or consanguinity within the fourth (4th) degree of a director, officer, or stockholder holding shares of stock sufficient to elect one (1) seat in the board of the company or any of its substantial shareholders;
- a5.** Is not acting as a nominee or representative of any director or substantial shareholder of the company, any of its related companies or any of its substantial shareholders;
- a6.** Is not or was retained as professional adviser, auditor, consultant, agent or counsel of the company, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election/appointment;
- a7.** Is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the company or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;
- a8.** Was not appointed in the company as Chairman "Emeritus", Ex-Officio", Regular Directors, Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities during the past three (3) years from the date of his election/appointment;
- a9.** Is not affiliated with any non-profit organization that receives significant funding from the company or substantial stockholders; and
- a10.** Is not employed as an executive officer of another company where any of the company's executive serve as regular directors.

**b. Term Limit of Independent Directors**

- b1.** An Independent Director shall serve for a maximum cumulative term of nine (9) years starting June 30, 2018 or at the time nomination/appointment, whichever comes later in compliance with Circular Letter No. 2018-36.
- b2.** An Independent Director who served the maximum period shall be perpetually barred from any re-election in the company but may continue as non-independent director.
- b3.** However, if the company desires to continue the services of an Independent Director who had already served his/her maximum term limit, said Independent Director, as an exception, may still continue to act as such provided that the Board submits to the Insurance Commission a formal written justification and must, in addition thereto, acquire the majority of the shareholder's approval during its annual meeting.

**(ii). Multiple Board Seats**

The Board allows multiple board seats in a committee as mandated by law or as the need arises subject to the following guidelines on the number of directorships for its members. The optimum number is related to the capacity of a director to perform his duties diligently in general. The Chief Executive Officer and other executive directors may submit themselves to a low indicative limit on membership in other corporate Boards. The same low limit may 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.

**B. The Chairman and the Chief Executive Officer**

The roles of the Chairman and the Chief Executive Officer ("CEO") should be separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The company shall disclose the relationship between the Chairman and the CEO upon their election.

The Chairman's responsibilities shall include:

- (i).** schedule meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the company's operations;
- (ii).** prepare meeting agenda in consultation with the CEO;
- (iii).** exercise control over quality, quantity and timeliness of the flow of information between Management and the Board; and
- (iv).** assist in ensuring compliance with company's guidelines on corporate governance.

## **Chief Executive Officer**

The Chief Executive of the Company shall be the President who shall be elected by the Board of Directors from among its members.

The Chief Executive Officer's responsibilities shall, among other powers and duties inherent in his office, execute and administer the policies, measures, orders and resolutions approved by the Board and direct and supervise the operations and administration of the company. He has the following powers and duties:

- (i). To execute all contracts and to enter into all authorized transactions in behalf of the company;
- (ii). To exercise, as Chief Executive Officer, the power of supervision and control over decisions or actions of subordinate officers and all other powers that may be granted by the Board;
- (iii). To recommend to the Board the appointment, promotion or removal of all officers of the company with the rank of at least Assistant Vice-President or its equivalent;
- (iv). To appoint, promote or remove employees and officers of the company, except those who are to be appointed or removed by the Board;
- (v). To transfer, assign and reassign officers and personnel of the company;
- (vi). To report periodically to the Board on the operations of the company;
- (vii). To submit annually a report on the result of operations of the company to the stockholders; and
- (viii). To delegate any of his powers, duties and functions to any corporate officers of the company subject to the approval of the Board.

## **C. Qualifications of Directors**

Every director shall own at least one (1) share of the capital stock of the corporation of which he is a director, which share shall stand in his name in the books of the corporation.

The Board may provide for additional qualifications of a director such as, but not limited to, the following:

- (i). Educational attainment;
- (ii). Adequate competency and understanding of business;
- (iii). Age requirement;
- (iv). Integrity / probity
- (v). Assiduousness

## **D. Disqualification of Directors**

The following shall be grounds for the permanent disqualification of a director:

- (i).** Any person who has been finally convicted by a competent judicial or administrative body of the following offenses that:
  - a.** willfully violating any provisions of the Insurance Code, as amended;
  - b.** intentionally making a material misstatement in his application to qualify as a director;
  - c.** attempting fraud, misrepresentation or dishonest practices;
  - d.** misappropriating or converting to his own use or illegally withholding moneys required to be held in fiduciary capacity;
  - e.** not demonstrating trustworthiness and competence to transact business in such matter as to safeguard the public; and
  - f.** materially misrepresenting the terms and conditions of policies or contracts of insurance which his company has sold.
  
- (ii).** Any person who, by reason of any misconduct, after hearing or trial, is permanently or temporarily enjoined by order, judgment or decree of any court or other administrative body of competent jurisdiction from acting as a director or officer of any corporation or engaging in or continuing any conduct or practice in connection with any such activity or willfully violating laws governing business transactions. Such person is also disqualified when he is currently subject to an effective order of a self-regulatory organization suspending or expelling him from membership or participation or from associating with a member or participant of the organization.
  - a.** 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 transgressions.
  - b.** Any person finally found by a court or any administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Corporation Code, or Insurance Code, as amended or any rule, regulation, circular or order of the Insurance Commission.
  - c.** Any person judicially declared to be insolvent.
  - d.** 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 paragraphs (1) to (5) hereof.
  - e.** Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code or Insurance Code, as amended, committed within five (5) years prior to the date of his election or appointment.



The following shall be grounds for the temporary disqualification of a director:

- (i). Refusal to fully disclose the extent of his business interest. This disqualification shall be in effect as long as his refusal persists.
- (ii). Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all meetings, both regular and special, of the Board of directors during his incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding election.
- (iii). Dismissal/termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity.
- (iv). Being under preventive suspension by the company.
- (v). If the independent director becomes an officer or employee of the same corporation, he shall be automatically disqualified from being an independent director.
- (vi). If the beneficial ownership of an independent director in the company or in its related companies shall exceed 2%.
- (vii). Conviction that has not yet become final referred to in the grounds for the disqualification of directors.

## **E. Duties, Functions and Responsibilities**

It is the Board's responsibility to foster the long-term success of the corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it should exercise in the best interest of the corporation and its shareholders.

### **(i). General Responsibility**

A director's office is one of trust and confidence. He should act in the best interest of the corporation in a manner characterized by transparency, accountability and fairness. He should exercise leadership, prudence and integrity in directing the corporation towards sustained progress over the long term. A director assumes certain responsibilities to different constituencies or stakeholders, who have the right to expect that the company is being run in a prudent and sound manner.

To ensure good governance of the corporation, the Board should establish the corporation's vision and mission, strategic objectives, policies and procedures that may guide and direct the activities of the company and the means to attain the same as well as the mechanism for monitoring management's performance. While the management of the day-to-day affairs of the company is the responsibility of the management team, the Board is, however, responsible for monitoring and overseeing management action.

**a. Duties and Functions**

To ensure a high standard of best practice for the company and its stakeholders, the Board should conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities which include, among others, the following:

- a1.** Install a process of selection to ensure a mix of competent directors, each of whom can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Select and appoint the CEO and other senior officers, who must have the motivation, integrity, competence and professionalism at a very high level. Adopt a professional development program for employees and officers, and succession planning for senior management.
- a2.** Determine the corporation's purpose and value as well as strategies and general policies to ensure that it survives and thrives despite financial crises and its assets and reputation are adequately protected. Provide sound written policies and strategic guidelines to the corporation that will help decide on major capital expenditures. Determine important policies that bear on the character of the corporation with a view towards ensuring its long-term viability and strength. It must periodically evaluate and monitor implementation of such strategies and policies, business plans and operating budgets as well as management's over-all performance to ensure optimum results.
- a3.** Ensure that the corporation complies with all relevant laws, regulations and codes of best business practices.
- a4.** Identify the corporation's major and other stakeholders and formulate a clear policy on communicating or relating with them accurately, effectively and sufficiently. There must be an accounting rendered to them regularly in order to serve their legitimate interests.
- a5.** Adopt a system of internal checks and balances, which may be applied in the first instance to the Board. A regular review of the effectiveness of such system must be conducted so that the decision-making capability and the integrity of corporate operations and reporting systems are maintained at a high level at all times.
- a6.** Endeavor to provide appropriate technology and systems rating to account for available resources to ensure a position of a strong and meaningful competitor. Identify key risk areas and key performance indicators and monitor these factors with due diligence.

- a7.** Constitute an Audit Committee.
- a8.** Properly discharge Board functions by meeting regularly. Independent views during Board meetings should be given due consideration and all such meetings should be duly minuted.
- a9.** Keep Board authority within the powers of the company as prescribed in the articles of incorporation, by-laws and in existing laws, rules and regulation. Conduct and maintain the affairs of the company within the scope of its authority and in conformity with the existing laws, rules and regulations.

**b. Specific Duties and Responsibilities of a Director**

- b1.** To conduct fair business transactions with the corporation and to ensure that personal interest does not bias Board decisions. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest should arise on the part of directors or senior executives, it should be fully disclosed and the concerned director should not participate in the decision making. A director who has a continuing conflict of interest of a material nature should consider resigning.
- b2.** To devote time and attention necessary to properly discharge his duties and responsibilities. A director should devote sufficient time to familiarize himself with the institution's business. He should be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the Board's work. He should attend and actively participate in Board and committee meetings, request and review meeting materials, ask questions, and request explanations.
- b3.** To act judiciously. Before deciding on any matter brought before the Board of directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.
- b4.** To exercise independent judgment. A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks are beneficial to the corporation.

- b5.** 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 and Insurance Commission, and where applicable, the requirements of other regulatory agencies. A director should also keep himself informed of industry developments and business trends in order to safeguard the corporation's competitiveness.
- b6.** To observe confidentiality. A director should observe the confidentiality of non-public information acquired by reason of his position as director. He should not disclose any information to any other person without the authority of the Board.
- b7.** To ensure the continuing soundness, effectiveness and adequacy of the company's control environment.

**c.** Internal Control Responsibilities of the Board

The control environment is composed of:

- c1.** the Board which ensures that the company is appropriately and effectively managed and controlled,
- c2.** a management that actively manages and operates the company in a sound and prudent manner,
- c3.** the organizational and procedural controls supported by an effective management information system and risk management reporting system, and
- c4.** 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

**c4.i.** The minimum internal control mechanisms for the Board's oversight responsibility may include:

- Defining the duties and responsibilities of the CEO;
- Selecting or approving an individual with appropriate ability, integrity, experience to fill the CEO role;
- Reviewing proposed senior management appointments;
- Ensuring the selection, appointment and retention of

qualified and competent management;

- Reviewing the company'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.

**c4.ii.** The minimum internal control mechanisms for management's operational responsibility would center on the CEO, being ultimately accountable for the company's organizational and procedural controls.

**c4.iii.** The scope and particulars of a system of effective organizational and procedural controls may differ among companies depending on factors such as: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

**c4.iv.** Each company may have in place an independent audit function, through which the company's Board, senior management, and stockholders may be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with. The Board may appoint a chief audit executive to carry out the audit function, and may require the chief audit executive to report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

## **F. Board Meetings and Quorum Requirement**

Members of the Board should attend regular and special meetings of the Board in person. In the event that the government should impose restriction on a face-to-face meetings or conference or as the needs arises by reason of health and safety of all the members, attendance at Board meetings through teleconference may be allowed.

An independent director should always be in attendance. However, the absence of an independent director may not affect the quorum requirements if he is duly notified of the meeting but deliberately and without justifiable cause fails to attend the meeting. Justifiable causes may only include grave illness, an illness that may be considered as one of the symptoms of an epidemic or pandemic disease or death of immediate family and serious accidents.

## **G. Remuneration of the Members of the Board and Officers**

Levels of remuneration shall be sufficient to attract and retain the directors, if any, and officers needed to run the company successfully. A proportion of executive directors' remuneration may be structured so as to link rewards to corporate and individual performance.

The company may establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers. No director should be involved in deciding his or her own remuneration.

The corporations' annual reports, information and proxy statements shall include a clear, concise and understandable disclosure of all plan and non-plan compensation awarded to, earned by, paid to, or estimated to be paid to, directly or indirectly to all individuals serving as the CEO or acting in a similar capacity during the last completed fiscal year, regardless of the compensation level and the corporation's four (4) most highly compensated executive officers other than the CEO who were serving as executive officers at the end of the last completed year.

## **H. Board Committees**

The Board shall constitute Committees in aid of good corporate governance.

- (i).** The Audit Committee shall be composed of at least three (3) but not exceeding five (5) Board members, preferably with accounting and finance background, one of whom shall be an independent director and another should have related audit experience. It shall have the following specific functions:
  - a.** Provide oversight over the senior management's activities in managing catastrophe exposure, market, liquidity, operational, legal and other risks of the corporation. This function shall include receiving from senior management periodic information on risk exposures and risk management activities. However, in consideration of the risk profile of the corporation, the Board may constitute a separate Risk Management Committee to focus on carrying out this oversight role over risk management;
  - b.** Provide oversight of the corporation's internal and external auditors;
  - c.** Review and approve audit scope and frequency, and the annual internal audit plan;
  - d.** Discuss with the external auditor before the audit commences the nature and scope of the audit, and ensure coordination where more than one audit firm is involved;

- e.** Responsible for the setting-up of an internal audit department and consider the appointment of an internal auditor as well as an independent external auditor, the audit fee and any question of resignation or dismissal;
- f.** Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system;
- g.** Receive and review reports of internal and external auditors and regulatory agencies, where applicable and ensure that management is taking appropriate corrective actions, in a timely manner in addressing control and compliance functions with regulatory agencies;
- h.** Review the quarterly, half-year and annual financial statements before submission to the Board, focusing particularly on:
  - Any change/s in accounting policies and practices
  - Major judgmental areas
  - Significant adjustments resulting from the audit
  - Going concern assumption
  - Compliance with accounting standards
  - Compliance with tax, legal, and other regulatory agencies' requirements
- i.** Responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. It may also constitute a Compliance Unit for this purpose.
- j.** Evaluate and determine non-audit work by external auditor and keep under review the non-audit fees paid to the external auditor both in relation to their significance to the auditor and in relation to the company's total expenditure on consultancy. The non-audit work should be disclosed in the annual report.
- k.** Establish and identify the reporting line of the chief audit executive so that the reporting level allows the internal audit activity to fulfill its responsibilities. The chief audit executive shall report directly to the Audit Committee functionally. The Audit Committee shall ensure that the internal auditors shall have free and full access to all the company's records, properties and personnel relevant to the internal audit activity and that the internal audit activity should be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results, and shall provide a venue for the Audit Committee to review and approve the annual internal audit plan.

The Chairman of this committee is preferably an independent director. He should be responsible for inculcating in the minds of the Board members the importance of management responsibilities in maintaining a sound system of internal control and the Board's oversight responsibility.

- (ii). The Board may also constitute the following committees:
- a. The Nomination Committee which may be composed of at least three (3) but not to exceed five (5) members, one of whom should be an independent director may 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 and provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board members.
  - b. The Compensation or Remuneration Committee may be composed of at least three (3) but not to exceed five (5) members, one of whom should be an independent director. It may establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the corporation's culture, strategy and control environment.
  - c. The Related Party Transaction Committee may be composed of at least three (3) but not to exceed five (5) members, one of whom should be an independent director. It may establish a formal and transparent procedure for developing a policy in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of the company's shareholders and other stakeholders.
  - d. The Risk Oversight Committee may be composed of at least three (3) but not to exceed five (5) members, one of whom should be an independent director. It may establish a formal and transparent procedure for developing a policy in in defining the Company's level of risk tolerance based on risk-based capital as set forth by the Insurance Commission and providing oversight over its risk management policies and procedures to anticipate, minimize, control or manage risks or possible threats to its operational and financial viability.

## **I. Corporate Secretary**

The Corporate Secretary, who must be a Filipino, is an officer of the corporation. Perfection in performance and no surprises are expected of



him. Likewise, his loyalty to the mission, vision and specific business objectives of the corporate entity come with his duties.

Like the CEO, he should work and deal fairly and objectively with all the constituencies of the corporation, namely, the Board, management, stockholders and other stakeholders. As such, he should be someone his colleagues and these constituencies can turn to, trust and confide with on a regular basis.

He should have the administrative skills of the chief administrative officer of the corporation and the interpersonal skills of the chief human resources officer. If the Corporate Secretary is not the general counsel, then he must have the legal skills of a chief legal officer. He must also have the financial and accounting skills of a chief financial officer, and, lastly the vision and decisiveness of the CEO.

By reason of his high degree of qualifications, the Board may appoint the corporate Secretary as concurrent Compliance Officer who principally monitors the mandatory compliance of the company and, if any violations are found, he shall report the matter to the Board and make recommendation any measures to prevent a repetition of the violation.

Since there are different individuals on top of various corporate activities, the Corporate Secretary should be fully informed and be part of the scheduling process of the different activities. As to agendas, he should have the schedule thereof at least for the current year and should put the Board on notice before every meeting. It is a very important discipline to get the Board to think ahead. He should serve as an adviser to director's responsibilities and obligations.

The Corporate Secretary should make sure that directors have before them everything that they need to make an informed decision. When the Board makes a decision, it is covered by a business judgment that can be arrived at by the members acting in good faith with the assistance of the Corporate Secretary who should review carefully the information presented to the directors at the time they are to make a decision.

## **SECTION 5. ADEQUATE AND TIMELY SUPPLY OF INFORMATION**

In order to fulfill their responsibilities, Board members, should be provided with complete, adequate and timely information prior to Board meetings on an on-going basis.

Management should have an obligation to supply the Board with complete, adequate information in a timely manner. Reliance purely on what is volunteered by Management is unlikely to be enough in all circumstances and further inquiries may be required if the particular director is to fulfill his or her duties properly. Hence, the Board may have separate and independent access to the company's senior management.

The information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. With respect to the budget, any variance between the projections and actual results should also be disclosed and explained.

Directors should also have a separate and independent access to the Corporate Secretary. The role of the Corporate Secretary should be clearly defined and should include responsibility for ensuring that Board procedures are being followed and that applicable rules and regulations are complied with.

The Board should have a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the corporation's expense.

## **SECTION 6. ACCOUNTABILITY AND AUDIT**

- A.** The Board is primarily accountable to the shareholders and Management is primarily accountable to the Board.

The Board should provide the shareholders with a balanced and understandable assessment of the corporation's performance, position and prospects on a quarterly basis. The Management should provide all members of the Board with a balanced and understandable account of the corporation's performance, position and prospects on a monthly basis. It should be primarily responsible in making financial reporting and internal control in accordance with the following guidelines:

- (i).** Present a balanced and understandable assessment of the company's position and prospects;
- (ii).** Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
- (iii).** Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
- (iv).** Maintain a sound system of internal control to safeguard stakeholders' investment and the company's assets;
- (v).** 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 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.

**(vi).** Require the chief auditor to render to the Audit Committee and senior management an annual report on the internal audit department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit Committee of the Board. Such annual report should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management. The chief auditor's annual report shall likewise be made available to the stockholders of the company. Internal auditors shall report that their activities are "conducted in accordance with the Standards for the Professional Practice of Internal Auditing". Otherwise, the chief auditor 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.

**B. Selection/Appointment, Resignation, Dismissal or Cessation of Service of an External Auditor**

The Board, through the Audit Committee, shall recommend to the stockholders a duly accredited external auditor who shall undertake an independent audit and shall provide an objective assurance on the way in which financial statements shall have been prepared and presented. Such 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 external auditor should be rotated every five (5) years or earlier or the handling partner shall be changed.

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 annual and current reports. 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 cause making reference to the subject matter of the disagreement in connection with its report.

If an external auditor believes that the statements made in an annual report, information statement or proxy statement filed during his engagement are incorrect or incomplete, he shall also present his views in said reports.

## **SECTION 7. RELATED PARTY TRANSACTION (RPT)**

### **A. Board of Directors**

The Board shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of the company's shareholders and other stakeholders. Towards this end, the board of directors shall carry out the following duties and responsibilities:

- (i).** To institutionalize an overarching policy on the management of material RPTs to ensure effective compliance with existing laws, rules and regulations at all times and that material RPTs are conducted on an arm's length basis, and that no shareholder or stakeholder is unduly disadvantaged.
- (ii).** To approve all material RPTs that cross the materiality threshold and write-off of material exposures to related parties, as well as any renewal or material changes in the terms and conditions of material RPTs previously approved, if any.

Material changes in the terms and conditions of the material RPT include, but are not limited to, changes in the price, interest rate, maturity date, payment terms, commissions, fees, tenor, conditions and collateral requirement of the material RPT.

- (iii).** To establish an effective audit, risk and compliance system to:
  - a.** Determine, identify and monitor related parties and material RPTs;
  - b.** Continuously review and evaluate existing relationships between and among businesses and counterparties; and
  - c.** Identify, measure, monitor and control risks arising from material RPTs.

The system shall be able to define the related parties' extent of relationship with the company; assess situations in which a non-related party (with whom a company has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the nature and amount of exposures of the company to a particular related party. The said system will facilitate submission of accurate reports to the Insurance Commission. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance officers and shall be updated regularly for their sound implementation. Any change in the policy and procedure shall be approved by majority of the Board and by majority of the stockholders constituting a quorum.

- (iv). To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board should ensure that senior management addresses legitimate issues on material RPTs that are raised. The board should take responsibility for ensuring that stakeholders who raise concerns are protected from detrimental treatment or reprisals.

## **B. Senior Management**

Senior management shall implement appropriate controls to effectively manage and monitor material RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the company's policy and regulations of Securities and Exchange Commission and Insurance Commission.

## **C. Material Related Party Transactions Policy**

The Board shall adopt a company-wide material RPT policy encompassing all parties, taking into account its size, structure, risk profile and complexity of operations.

At a minimum, material RPT policies shall include, but not be limited to the following:

- (i). Identification of related parties. The policy shall clearly identify persons and companies that are considered as the company's related parties. The policy shall require Management/Board of Directors to quarterly review and update the list of Related Party to capture organizational and structural changes in the company and its related parties.
- (ii). Coverage of Material RPT policy. The material RPT policy shall cover all transactions meeting the materiality threshold.

Transactions amounting to ten percent (10%) or more of the total assets that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the 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 Material RPT Rules. The prospective treatment should, however, be without prejudice to regulatory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

- (iii). Adjusted Thresholds. The company shall be allowed to set a threshold lower than the materiality threshold provided under these Rules upon determination by the board of directors of the risk of the RPT to cause damage to the company and its shareholders. The adjusted threshold, when applicable, shall be contained in the company's material RPT

policy.

- (iv).** Identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with material RPTs. The policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with the material RPTs. 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 company. 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.
- (v).** Guidelines in ensuring arm's length terms. The policy shall have clear guidelines in ensuring that no preferential treatment shall be given to related parties that are not extended to non-related parties under similar circumstances.

Before the execution of the material RPT, the Board 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. The independent evaluation of the fairness of the transparent price ensures the protection of the rights of shareholders and other stakeholders.

The policy shall also include guidance for an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the company and its shareholders. The price discovery mechanism may include, but is not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

- (vi).** Approval of material RPTs. All individual material RPTs shall be approved by at least two-thirds (2/3) vote of the Board, 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 company'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.

Directors with personal interest in the transaction should abstain from participating in discussions and voting on the same. In case they

refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

- (vii).** Self-assessment and periodic review of policy - The internal audit shall conduct a periodic review of the effectiveness of the company's system and internal controls governing material RPTs to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

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

- (viii).** Disclosure requirement of material RPTs. The members of the board, substantial shareholders, and officers shall fully disclose to the Board all material facts related to material RPTs as well as their direct and indirect financial interest in any transaction or matter that may affect or is affecting the company. 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.
- (ix).** Whistle blowing mechanisms. The policy shall include effective whistleblowing mechanisms consistent with the corporate values and codes of conduct set by the board of directors. The policy shall encourage all stakeholders to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable material RPTs. It shall include guidance on how legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the board itself.
- (x).** Remedies for abusive material RPTs. The policy shall include measures that would cut losses and allow recovery of losses or opportunity costs incurred by the company arising out of or in connection with abusive material RPTs. The policy shall also include the penalties and the manner of imposing the same on personnel, officers or directors, who have been remiss in their duties in handling material RPTs in accordance with company policies.

In all circumstances, the company rules and policies shall be consistent with the spirit and intent of all the provisions of Title 20, Chapter III of the Insurance Code.

## **SECTION 8. STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS**

The Board shall be committed to respect the following rights of the stockholders:

### **A. Voting Right**

Stockholders have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.

The Corporation Code mandates the use of cumulative voting in the election of directors. Although directors may be removed with or without cause, the Corporation Code prohibits removal without cause if it will deny minority shareholders representation in the Board. Removal of directors requires an affirmative vote of two-thirds of the outstanding capital.

### **B. Pre-emptive Right**

All stockholders have pre-emptive rights, unless there is a specific denial of this right in the articles of incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the corporation. The Articles of Incorporation may lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which are protected by law so long as they are not in conflict with the Corporation Code.

### **C. Power of Inspection**

The Corporation Code mandates corporations to allow shareholders to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and to provide them an annual report, including financial statements, without cost or restrictions.

### **D. 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 company's shares, dealings with the company, relationships among directors and key officers, and the aggregate compensation of directors and officers.

The minority shareholders should be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.



The minority shareholders should 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 should include such information and, if not included, then the minority shareholders can propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

#### **E. Right to Dividends**

Shareholders have the right to receive dividends subject to the discretion of the Board. However, the company needs to secure prior approval of the Insurance Commission in compliance with Circular Letter No. 2020-66. may direct the corporation to declare dividends when its admitted retained earnings is in excess of 100% of its paid-in capital stock, except: (a) when justified by definite corporate expansion projects or programs approved by the Board or (b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or (c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is a need for special reserve for probable contingencies.

#### **F. Appraisal Right**

The Corporation Code allows the exercise of the shareholders' appraisal rights under the following circumstances:

- (i).** In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or of authorizing preferences in any respect superior to those of outstanding shares, or of extending or shortening the term of corporate existence;
- (ii).** 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
- (iii).** In case of merger or consolidation, it is 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.

## **G. Alternative Dispute Resolution Mechanism**

To resolve intra-corporate dispute between the company and any of the stockholders or between stockholders, the company may resort to alternative modes of dispute resolution which may be agreed upon by the parties concerned and the adverse party, including but not limited to arbitration, conciliation, mediation, or other modes, whether face-to-face or through video-conferencing, wherein all the parties involved are afforded an equal opportunity to hear and be heard. All the cardinal basic rights in the administrative proceedings must be properly observed. All proceedings must be duly recorded with utmost confidentiality.

## **SECTION 9. EVALUATION SYSTEMS**

The management may establish a performance evaluation system to measure the performance of the Board and top-level management of the corporation.

### **A. COMMUNICATION PROCESS**

- (i).** This Manual shall be available for inspection by any stockholder of the company and authorized deputized officers of the Insurance Commission at reasonable hours on business days.
- (ii).** All Directors, executives and department heads are directed to cascade the provisions of this Manual to all employees and related third parties for their utmost adherence thereto.

### **B. TRAINING PROCESS**

- (i).** All key officers and members of the board are required to attend, at least once a year, a program on corporate governance conducted by training providers that are duly accredited by the Securities and Exchange Commission and Insurance Commission.
- (ii).** A Director shall, before his assumption of office or within a period of six (6) months from date of election, is required to attend seminar on corporate governance which shall be conducted by a private or government institute duly accredited by Securities and Exchange Commission and Insurance Commission.

If necessary, funds shall be allocated by the Treasurer for the purpose of conducting an orientation program or workshop to effectively implement this Manual. It would be included in the annual budget the cost of conducting such orientation or workshop for this purpose.

### **C. SUCCESSION PLANNING, DEVELOPMENT AND RETIREMENT PROGRAMS**

- (i). The Board shall conduct a periodic review of the existing rules, policies and guidelines with regard to conflict of salaries and benefits, promotions and career advancement directives and ensuring compliance by personnel concerned with all statutory requirements including the retirement provisions of the Department of Labor and Employment;
- (ii). The Board shall also conduct regular review the general criteria for the employment and promotion of Officers, Executives and key personnel as well as any training and development plans for such Officers, Executives and key personnel which may be recommended by the Company's Human Resources Head, and keep track of the performance and development of such Officers, Executives and key personnel; and
- (iii). The Board shall review potential career or development paths for highly recommended potential Officers, Executives and key personnel of the Company and Management's succession plan as developed or recommended by the President and CEO and/or Operations Support Division Head.

#### **SECTION 10. DISCLOSURE AND TRANSPARENCY**

A dominant theme in all issues related to corporate governance is the vital importance of disclosure. The more transparent the internal workings of the company and cash flows, the more difficult it will be for management and controlling shareholders to misappropriate company assets or mismanage the company.

The most basic and all encompassing disclosure requirement is that all material information that could potentially affect the book value per share, directly or indirectly, should be disclosed. Such information would include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership.

The Board shall therefore, commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information for the interest of the stakeholders.

#### **SECTION 11. COMMITMENT TO CORPORATE GOVERNANCE**

The company shall promulgate and adopt its corporate governance rules and principles in accordance with the Corporation Code and Insurance Code, as amended. Said rules shall be in manual form and available as reference by the Board. It shall be submitted to the Insurance Commission, which shall evaluate the same and their compliance with existing laws, rules, regulations, circulars and other regulatory orders. The said manual shall be available for inspection by any stockholder of the company at reasonable hours during business days. The Chairman of the Board shall be specifically tasked with

the responsibility of ensuring adherence to the corporate governance code and practices.

All business processes and practices being performed within any division and/or department of the Company that are inconsistent with any portion of this Manual shall be ipso facto revoked.

## **SECTION 12. AMENDMENT, ALTERATION OR MODIFICATION**

This Manual shall be amended, altered or modified by the majority vote of the Board constituting a quorum called for the purpose.