



NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

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May 17, 2012

Philippine Stock Exchange Inc.
3rd Floor, PSE Plaza, Ayala Triangle
Ayala Avenue, Makati City

Attention: Ms. Janet Encarnacion
Head, Disclosure Department

Re: National Reinsurance Corporation of the Philippines ("NRCP")

Gentlemen:

Please be advised that at the meeting of the Board of Directors of NRCP held today, May 17, 2012, the Board approved the following:

1. Declaration of Php 0.10/share cash dividend amounting to a total of Php212,360,560.00, out of the unrestricted retained earnings of the Corporation as of December 31, 2011. The record date shall be June 1, 2012, while the payment date shall be June 22, 2012.
2. The recommendation of the Nomination and Compensation Committee to adopt the attached "Nomination and Election Rules" for the Annual Stockholders' Meeting of NRCP.

Very truly yours,


JOHN E. HUANG
SVP / Chief Finance Officer

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
(the "Corporation" or "PhilNaRe")**

NOMINATION AND ELECTION RULES

RULE I

General Provisions

Section 1. Title --- These Rules shall be known as the "PhilNaRe Election Rules for Annual Stockholders' Meetings".

Section 2. Coverage --- The Rules shall govern the elections to the Board of Directors of the Corporation at the annual stockholders' meeting.

Section 3. Policy. --- It shall be the aim of these Rules to ensure that elections within the Corporation are held in a clean and orderly fashion, and that in relation thereto all stockholders, whether candidates or not, shall at all times conduct themselves with integrity, courtesy, and in a civilized manner.

Section 4. Implementing Body. The Nomination Committee shall have the exclusive power to enforce and administer these Rules.

RULE II

The Nomination Committee

Section 1. Constitution of the Nomination Committee. The Nomination Committee shall be appointed by the Board of Directors of the Corporation and shall be composed of at least three (3) members, one of whom shall be an independent director. The committee shall review and evaluate the qualifications of all persons nominated to the Board of Directors.

Section 2. Powers and Functions. --- The Nomination Committee shall have the following powers and functions:

(a) To pre-screen the qualifications of all nominees to the Board of Directors of the Corporation, taking into consideration the relevant issuances of the Insurance Commission and the Securities and Exchange Commission.

(b) To promulgate, enforce, and administer all rules and regulations relative to the conduct of nominations and elections, and to ensure that all candidates are informed of such rules and regulations.

(c) To supervise and coordinate the conduct of elections to the Board of Directors, hear and decide election controversies, including, but not limited to, validation of proxies, appreciation of ballots, and election protests.

(d) To formulate and implement, such rules, regulations, and procedures as are necessary for the proper conduct of nominations and elections of directors; and

(e) To exercise such other powers and functions as may be necessary and incidental to those herein conferred, and as may be assigned to it by the Board of Directors of the Corporation.

Section 3. Rules and Decisions. — Decisions of the Committee on qualification or disqualification of candidates for the Board of Directors, validation or invalidation of proxies, appreciation of ballots, and election protests, shall be in writing and shall briefly state the reasons therefore.

Section 4. Quorum. — A majority of all the members the Committee shall constitute a quorum. The affirmative vote of a majority of the members present, there being a quorum, shall be sufficient to pass any motion, affirm any resolution, render any decision, or effectuate any other business, requiring the exercise of the Committee's discretion.

RULE III

Nomination of Candidates

Section 1. Nomination for Directors — Nominations for directors shall be made in writing and shall be delivered or mailed to the Chairman of the Board or Vice-Chairman of the Board at the principal office of the Corporation, with the written consent of the nominees, at least 60 days before the annual stockholders' meeting, provided that, in the case of the 2012 annual stockholders' meeting, the same should be submitted at least ten (10) business days before the scheduled date of the 2012 annual stockholders' meeting. The Chairman or Vice-Chairman of the Board, as the case may be, shall forward or refer such nominations to the Nomination Committee.

Section 2. Form of Nomination — All nominations shall be in writing, and duly signed and submitted by any stockholder. The nomination shall be accompanied by the written consent of the nominees. A candidate who accepts the nomination shall be required to submit to the Committee his *curriculum vitae*.

The *curriculum vitae* shall contain the following mandatory information:

- (1) Name, age, address, citizenship and educational background of the candidate;
- (2) List of positions and offices held in all corporations, organizations or partnerships;
- (3) The candidate's business experience during the past five (5) years.

Section 4. Qualifications of Regular Directors — Every director shall own at least one (1) share of the outstanding capital stock of the Corporation which share shall stand in his name in the books of the Corporation. A majority of the directors must be residents of the Philippines. Directors sitting in the Board shall be possessed of the necessary skills, competence and experience, in terms of management capabilities and preferably in the field of insurance or insurance-related disciplines. He must possess all the qualifications and none of the disqualifications provided in the attached Guidelines for Nomination of Directors (Annex "A").

Section 5. Qualifications of Independent Directors — Apart from the qualifications set forth under Section 4 hereof, a candidate for independent director must be independent of the Corporation's management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director of the Corporation. He must possess all the qualifications and none of the disqualifications provided in the attached Guidelines for Nomination of Directors (Annex "A").

Section 6. Evaluation of Qualifications of Candidates — Before the annual stockholders' meeting, the Committee shall convene for the purpose of evaluating the qualifications of the nominees for directors of the Corporation. The Committee shall thereafter prepare the final list of qualified candidates. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as directors. No other nominations shall be entertained after the final list of candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

Section 7. Information Statements — For nominees to be listed in the information statement to be filed by the Corporation with the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE), the qualifications of such nominees should have been evaluated and determined by the Committee not later than the three business days prior to the Corporation's scheduled date of filing of such information statement with the SEC and the PSE.

RULE IV

Validation of Proxies

Section 1. Form of Proxy. (a) The form of proxy shall:

- i. indicate in bold-face type on whose behalf the solicitation is made;**
- ii. provide a specifically designated blank space for dating the proxy card;**
- iii. identify clearly and impartially each separate matter intended to be acted upon;**
- iv. be in writing, signed by the stockholder or his duly authorized representative; and**
- v. be filed with the Corporate Secretary before the scheduled meeting.**

(b) Means shall be provided in the proxy form whereby the person solicited is afforded an opportunity to specify by boxes a choice between approval or disapproval of, or abstention with respect to, each separate matter referred to therein as intended to be acted upon, other than election to office. A proxy may confer discretionary authority with respect to matters as to which a choice is not specified by the security holder provided that the form of proxy states in bold-face type how it is intended to vote the shares represented by the proxy in each such case.

(c) A proxy form which provides for the election of directors shall set forth the names of persons nominated for election as directors. Such form of proxy shall clearly provide any of the following means for security holders to withhold authority to vote for each nominee:

- i. a box opposite the name of each nominee which may be marked to indicate that authority to vote for such nominee is withheld;**

ii. an instruction in bold-face type which indicates that the security holder may withhold authority to vote for any nominee by lining through or otherwise striking out the name of the nominee; or

iii. designated blank spaces in which the shareholder may enter the names of nominees with respect to whom the shareholder chooses to withhold authority to vote.

(d) Any proxy form which is executed by the security holder in such manner as not to withhold authority to vote for the election of any nominee shall be deemed to grant such authority, provided that the proxy form so states in prominent bold-face type.

(e) A proxy may confer discretionary authority to vote with respect to any of the following:

i. Matters that are to be presented at the meeting but which, at a reasonable time before the solicitation, are not known to the persons making the solicitation; provided, however, that a specific statement to that effect is made in the information statement or proxy form;

ii. Approval of the minutes of the prior meeting;

iii. The election of any person to any office for which a bona fide nominee is named in the information statement and such nominee is unable to serve or for good cause will not serve; or

iv. Matters incident to the conduct of the meeting.

(f) No proxy shall confer authority:

i. to vote for any person to any office for which a bona fide nominee is not named in the information statement or in any material attached thereto;

ii. to vote with respect to more than one meeting (and any adjournment thereof), unless a specific statement is made in the information statement and form of proxy that the proxy is valid for more than one meeting. Provided, however, that no proxy shall be

valid and effective for a period longer than five (5) years from the date of the proxy; or

iii. to consent to or authorize any action other than the action proposed to be taken in the information statement or matters referred to above.

(g) The proxy form shall provide, subject to reasonable specified conditions, that the shares represented by the proxy will be voted and that, where the person solicited specifies by means of a ballot provided pursuant to this Rule a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specifications so made.

Section 2. Rules in the Validation of Proxies.

i. The corporate by-laws shall be controlling in determining the proper procedure to be followed in the execution and acceptance of proxies, provided that the minimum required formalities prescribed under Section 58 of the Corporation Code and SRC Rule 20 shall be complied with.

ii. The notice of stockholders' meeting shall also set the date, time and place of the validation of proxies, which shall not be later than five calendar days prior to the annual stockholders' meeting, and in the case of the 2012 annual stockholders' meeting, the validation of proxies shall be on June 22, 2012, at 3:00 p.m.. The presence of any stockholder who may wish to be present in person or through counsel shall be allowed.

iii. Failure to affix documentary stamps shall not affect the validity of the proxy. The only adverse effect of such failure is that the same cannot be recorded as a public document and cannot be admitted or used as evidence in Court until the required documentary stamp is affixed and cancelled.

iv. Unless required by the corporate by-laws, a proxy need not be notarized.

v. If the name of the proxy is left in blank, the person to whom it is given or the issuer corporation receiving the proxy is at liberty to fill in any name he/it chooses.

vi. If a duly accomplished and executed proxy is undated, the postmark or, if not mailed, its actual date of presentation shall be considered.

vii. A proxy executed by a corporation shall be in the form of a board resolution duly certified by the Corporate Secretary or in a proxy form executed by a duly authorized corporate officer accompanied by a Corporate Secretary's certificate quoting the board resolution authorizing the said corporate officer to execute the said proxy. A sample of such board resolution may be provided by the Corporation to the stockholders together with the notice of meeting.

viii. Proxies shall be submitted not later than 10 days prior to the annual stockholders' meeting, provided that in the case of the 2012 annual stockholders' meeting, the same should be submitted not later than 5 days prior to the annual stockholders' meeting, or not later than June 22, 2012, at 3p.m. at the principal office of the Corporation.

ix. Where the corporation receives more than one (1) proxy from the same stockholder and they are all undated, the postmark dates shall be considered. If the proxies are mailed on the same date, the one bearing the latest time of day of postmark is counted. If the proxies are not mailed, then the time of their actual presentation is considered. That which is presented last will be recognized.

x. Where a proxy is given to two (2) or more persons in the alternative in one instrument, the proxy designated as an alternate can only act as proxy in the event of non-attendance of the other designated person.

xi. Where the same stockholder gives two (2) or more proxies, the latest one given is to be deemed to revoke all former proxies.

xii. A proxy shall be valid only for the meeting for which it is intended.

xiii. Executors, administrators, receivers and other legal representatives duly appointed by the court may attend and vote on behalf of the stockholders without a need of any written proxy.

xiv. If the stockholder intends to designate several proxies, the number of shares of stock to be represented by each

proxy shall be specifically indicated in the proxy form. If some of the proxy forms do not indicate the number of shares, the total shareholdings of the stockholder shall be tallied and the balance thereof, if any, shall be allotted to the holder of the proxy form without the number of shares. If all are in blank, the stocks shall be distributed equally among the proxies. The number of persons to be designated as proxies may be limited by the By-laws.

xv. In case of shares of stock owned jointly by two (2) or more persons, the consent of all co-owners shall be necessary to appoint or revoke a proxy.

xvi. For persons owning shares in an "and/or" capacity, any one of them may appoint and revoke a proxy.

xvii. Proxies executed abroad shall be duly authenticated by the Philippine Embassy or Consular Office.

xviii. No member of the Stock Exchange and no broker/dealer shall give any proxy, consent or authorization, in respect of any security carried for the account of a customer to a person other than the customer, without the express written authorization of such customer. The proxy executed by the broker shall be accompanied by a certification under oath stating that before the proxy was given to the broker, he had duly obtained the written consent of the persons in whose account the shares are held.

xix. A proxy shall not be invalidated on the ground that the stockholder who executed the same has no signature card on file with the Corporate Secretary or Transfer Agent, unless it can be shown that he/she had refused to submit the signature card despite written demand to that effect duly received by the said stockholder at least ten (10) days before the annual stockholders' meeting and election.

xx. There shall be a presumption of regularity in the execution of proxies and shall be accepted if they have the appearance of prima facie authenticity in the absence of a timely and valid challenge.

xxi. In the validation of proxies, a special committee of inspectors shall be designated or appointed by the Board of Directors which shall be empowered to pass on the validity of proxies. Any dispute that may arise pertaining thereto, shall be

resolved by the Securities and Exchange Commission upon formal complaint filed by the aggrieved party, or by the SEC officer supervising the proxy validation process.

xxii. All issues relative to proxies including their validation shall be resolved prior to the canvassing of votes for purposes of determining a quorum.

xxiii. All shares which are subject of a case where ownership is at issue, shall be set aside for purposes of proxy validation unless there is a court appointed representative who shall then vote on said shares.

xxiv. Any violation of this Rule on Proxy shall be subject to the administrative sanctions provided for under Section 144 of the Corporation Code and Section 54 of the Securities Regulation Code, and shall render the proceedings null and void.

RULE V

Conduct of Elections & Appreciation of Ballots

Section 1. Conduct of Elections. — Elections shall be done by secret ballot. Casting of ballots during the elections shall be done in a peaceful and orderly fashion, without unnecessary interruption. Once the last ballot has been cast, the Board of Canvassers appointed by the Board of Directors shall close the period for the casting of ballots and proceed to canvass the votes. No further ballots shall be accepted after the period for casting ballots has been declared closed.

Persons guilty of unruly or offensive conduct, or those who conduct themselves in a manner that unduly interrupts or delays the proceedings, shall be excluded and not be allowed to vote, either for himself or for stockholders he represents by proxy.

Section 2. Election of Directors. The Chairman of the Meeting shall inform all stockholders in attendance of the mandatory requirement of electing independent director/s. He / She shall ensure that independent directors are elected during the stockholders' meeting.

The voting for the regular and independent directors shall be segregated. The ten candidates for regular directors who receive the highest number of votes shall be declared as elected, provided, however, that with respect to the 2012 annual stockholders' meeting, the ninth and tenth candidate who receive the highest votes shall only assume office upon approval by the SEC of the Amended

Articles of Incorporation of the Corporation increasing the number of directors to 13. In accordance with Section 29 of the Corporation Code, any directorship to be filled by reason of an increase in the number of directors shall be filled only by an election at a regular or at a special meeting of stockholders or members duly called for the purpose, or in the same meeting authorizing the increase of directors if so stated in the notice of the meeting. Thus, the additional two seats in the Board will be filled at the June 27, 2012 annual stockholders' meeting, provided that the directors so elected to occupy the two additional seats will assume office only upon approval by the SEC of the amended articles of incorporation of the Corporation.

On the other hand, the three candidates for independent directors who receive the highest number of votes cast for independent directors shall be declared as elected.

Section 3. Tie-Breaker. In the event of a tie between two candidates for the last slot for regular director or for independent director, the Corporation may break the tie by way of drawing of lots (by the candidates who get the same number of votes). (SEC Opinion dated 24 February 2004)

In case the other candidate (who gets the tie vote) is absent during the annual stockholders' meeting, an authorized representative of the absent candidate or his proxy, or in case there is no authorized representative/proxy, the presiding officer, in the presence of the stockholders, shall draw the lot in behalf of the absent candidate.

Section 4. Cumulative Voting. Cumulative voting applies. Under this method of voting, a stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing in his own name on the stock books of the Corporation as of the Record Date, and said stockholder may vote such number of shares for as many persons as there are directors to be elected (i.e., 13) or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit.

Section 5. Announcement of Elected Directors. — Once the Board of Canvassers finishes canvassing the votes, it shall announce the candidates that received the most votes.

Section 6. General Policy in Appreciation of Ballots. — Every ballot shall be presumed valid, unless there is clear and good reason to reject it. The canvassing body's appreciation shall be final. Nonetheless, it shall be guided by

the following rules, bearing in mind that the object of the election is to obtain the expression of the voter's will:

(a) Where only the first name of a candidate or only his surname is written, the vote for such candidate is valid if there is no other candidate with the same first name or surname for the same office.

(b) Where only the first name of a candidate is written on the ballot, which when read, has a sound similar to the surname of another candidate, the vote shall be counted in favor of the candidate with such surname. If there are two or more candidates with the same full name, first name or surname and one of them is the incumbent, and on the ballot is written only such full name, first name or surname, the vote shall be counted in favor of the incumbent, if both are incumbent, the vote shall be counted in favor of the incumbent with the longest continuous tenure.

(c) When two or more names are written on the same line on the ballots, all of which are the surnames of two or more candidates, the same shall not be counted for any of them, unless one is a surname of an incumbent who has served for at least one year in which case it shall be counted in favor of the latter.

(d) When the surnames of two or more candidates bearing the same surname are written on two or more lines on the ballot, the same number of such surnames written shall be counted as there are candidates with that surname.

(e) When a name is written on the ballot which is the first name of a candidate and, at the same time, the surname of another candidate, the vote shall be counted in favor of the latter.

(f) When two words are written on the ballots, one of which is the first name of a candidate and the other is the surname of another candidate, the vote shall not be counted for either.

(g) A name or surname incorrectly written which, when read, has a sound similar to the name or surname of a candidate when correctly written shall be counted in his favor.

(h) When a name of a candidate appears in a space of the ballot for an office for which he is a candidate and in another space for which he is not a candidate, it shall be counted in his favor for the office for which he is a candidate and the vote for the office for which he is not a candidate shall be considered as stray, except when it is used as a means to identify the vote, in which case, the whole ballot shall be void.

(i) When in a space in the ballot there appears a name of a candidate that is erased and another clearly written, the vote is valid for the latter.

(j) The erroneous initial of the first name which accompanies the correct surname of a candidate, the erroneous initial of the surname accompanying the correct first name of a candidate, or the erroneous middle initial of the candidate shall not annul the vote in favor of the latter.

(k) Any vote containing initials only or which is illegible or which does not sufficiently identify the candidate for whom it is intended shall be considered as a stray vote but shall not invalidate the whole ballot.

(l) If the first name of the candidate is correctly written on the ballot but with a different surname, or the surname of the candidate is correctly written but with different first name, the vote shall not be counted in favor of any candidate having such first name and/or surname.

(m) Any ballot written with crayon, lead pencil, or in ink, wholly or in part, shall be valid.

(n) If the candidates voted for exceed the number of those to be elected, the ballot is valid, but the votes shall be counted only in favor of the candidates whose names were firstly written by the vote within the spaces provided for said office in the ballot until the authorized number is covered.

(o) Any vote in favor of a person who was not nominated for the directorship in accordance with the By-Laws, shall be considered as a stray vote but is shall not invalidate the whole ballot.

(p) Ballots containing the name of a candidate printed and pasted on a blank space of the ballot or affixed thereto through any mechanical process are null and void.

(q) Circles, crosses or lines put on the spaces on which the voter has not voted shall be considered as signs to indicate his desistance from voting and shall not invalidate the ballot.

(r) The use of two or more kinds of writing and unintentional or accidental flourishes, or strains, shall not invalidate the ballot.

RULE VI

Final Provisions

Section 1. Effectivity. — These Rules shall become effective immediately upon approval of the Board of Directors. These Rules shall remain in full force and effect until amended, modified, or repealed by the Board of Directors of the Corporation.

ANNEX "A"

NOMINATION COMMITTEE GUIDELINES IN THE EVALUATION OF THE QUALIFICATIONS OF NOMINEES FOR REGULAR AND INDEPENDENT DIRECTORS

The following guidelines have been adopted by the Nomination Committee of National Reinsurance Corporation of the Philippines for the purpose of reviewing and evaluating the nominees for regular and independent directors of the Corporation.

I. **Qualifications and Disqualifications of Regular Directors under the IC Code of Corporate Governance**

A. **Qualifications**

1. *Competence.* A director must be possessed of the necessary skills, competence and experience, in terms of management capabilities preferably in the field of insurance or insurance-related disciplines. In view of the judiciary nature of insurance obligations, directors must also be persons of integrity and credibility.
2. *Qualifying Share.* A director must own at least 1 share of the capital stock of National Re.
3. *Age.* A director must be at least 25 years of age at the time of his election to office. The Board may also establish a fixed retirement age policy for directors.
4. *Seminar on Corporate Governance.* A director must have attended a seminar on corporate governance conducted by a training provider accredited by the IC.
5. *Multiple Board Seats.* In accordance with the IC Code of Corporate Governance, there shall be a policy against multiple Board seats, thus:
 - (a) The President/ CEO and other executive directors shall submit themselves to a low indicative limit (four or lower) on membership in other corporate boards.
 - (b) There can be a higher indicative limit for all other directors. In any case, the capacity of directors to serve with diligence shall not be compromised.

6. *Conflict of Interest.* Likewise in accordance with the IC Code of Corporate Governance, there shall be a policy against possible conflict of interest.
7. *Not Disqualified.* A director must not have any of the disqualifications for holding a director position, as provided for under the IC Code of Corporate Governance.

B. Disqualification

Permanent Disqualification

1. Persons who have been convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft;
2. Persons who have been convicted by final judgment of the court for violation of insurance laws;
3. Persons who have been judicially declared insolvent, spendthrift or unable to enter into a contract; or
4. Directors, officers or employees of closed insurance companies or any insurance intermediaries who were responsible for such institution's closure as determined by the Insurance Commission.

Temporary Disqualification

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 the Insurance Commission. This disqualification shall be in effect as long as the refusal persists;
2. Directors who have been absent or who have not participated for whatever reasons in more than 50% of all meetings, both regular and special of the Board of Directors during their incumbency, or any 12 month period during said incumbency. This disqualification applies for purposes of 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 the 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 the IC;

6. Directors who failed to attend the special seminar on corporate governance. The disqualification applies until the director concerned has attended such seminar.
7. Persons dismissed/terminated from employment for cause. The disqualification applies 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. The disqualification applies until they have cleared themselves of involvement in the alleged irregularity;
10. Persons delinquent in the payment of their obligations as defined hereunder:
 - (a) Delinquency in the payment of obligations means that obligations of a person with the insurance company or its related companies where he/she is a director or officer; or at least two obligations with other insurance companies, under different credit lines or loan contracts;
 - (b) Obligations shall include all borrowings from an insurance company, or its related companies obtained by:
 - i. A director or officer for his own account or as the representative or agent of others or where he/she acts as guarantor, endorser, or surety for loans from such institutions;
 - ii. The spouse or child under the parental authority of the director or officer;
 - iii. Any person whose borrowings or loan proceeds were credited to the amount of, or used for the benefit of a director or officer;
 - iv. A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
 - v. 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 i, ii and iv;

The disqualification shall be in effect as long as the delinquency persists.

II. Independent Directors

A. Definition

The SEC defines an independent director as a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company and includes, among others, any person who:¹

1. Is not a director or officer of the covered company or of its related companies² or any of its substantial shareholders³ except when the same shall be an independent director of any of the foregoing;
2. Does not own more than two percent (2%) of the shares of the covered company and/or its related companies or any of its substantial shareholders;
3. Is not related to any director, officer or substantial shareholder of the covered company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
4. Is not acting as a nominee or representative of any director or substantial shareholder of the covered company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
5. Has not been employed in any executive capacity by the covered company, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;⁴

¹ SRC Rule 38 – Requirements on Nomination and Election of Independent Directors.

² SRC Rule 38 defines a “related company” as a company which is (a) its holding company; (b) its subsidiary; or (c) a subsidiary of its holding company.

³ SRC Rule 38 defines a substantial shareholder as a person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

6. Is not retained, either personally or through his firm or any similar entity, as professional adviser, by that covered company, any of its related companies and/or any of its substantial shareholders, within the last two (2) years;⁵ or

7. Has not engaged and does not engage in any transaction with the covered company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial.

The IC, on the other hand, defines an independent director as follows:

1. An independent director shall be one who has not been an officer or employee of the corporation, its subsidiaries⁶ or affiliates⁷ or related interests⁸ for at least three years immediately preceding his term or incumbency;
2. He or she is not related within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or majority shareholder⁹ of the company or any of its related companies.¹⁰
3. He or she is not a director or officer of the related companies of the institution's majority shareholder;

⁴ SRC Rule 38, as amended by SEC Memorandum Circular No. 13-04, October 21, 2004.

⁵ *Ibid.*

⁶ A subsidiary means a corporation more than 50% of the voting stock of which is owned or controlled directly or indirectly through one or more intermediaries by an insurance company.

⁷ An affiliate is a juridical person that directly or indirectly through one or more intermediaries, is controlled by, or is under common control with the insurance companies or its affiliates.

⁸ Related interests shall mean 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.

⁹ Majority shareholder means a person, whether natural or juridical, owning more than 50% of the voting stock of an insurance company.

¹⁰ Related company means another company which is: (a) its parent or holding company; (b) its subsidiary or affiliate; or (c) a corporation where an insurance company or its majority stockholder owns such number of shares which allow/enable him to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

4. He or she is not a majority shareholder of the company, any of its related companies, or of its majority shareholder;
5. He or she is not acting as nominee or representative of any director or substantial shareholder of the company, any of its related companies, or any of its substantial shareholders;
6. He or she is free from any business or other relationships with the institution or any of its major stockholders which could materially interfere with the exercise of his judgment.

B. Qualifications and Disqualifications of an Independent Director under the SRC

An independent director shall have the following qualifications:

- (1) He shall have at least one (1) share of stock of the corporation;
- (2) He shall be at least a college graduate or he shall have been engaged or exposed to the business of the corporation for at least five (5) years*;
- (3) He shall possess integrity/probity; and
- (4) He shall be assiduous.

No person enumerated under Section II (5) of the Code of Corporate Governance shall qualify as an independent director.¹¹ He shall likewise be disqualified during his tenure under the following instances or causes:

¹¹ Section II (5) of the Code of Corporate Governance provides:

Disqualification of Directors

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

- a. Any person who has been finally convicted by a competent judicial or administrative body of the following: (i) any crime involving the purchase or sale of securities, e.g., proprietary or non-proprietary membership certificate, commodity futures contract, or interest in a common trust fund, pre-need plan, pension plan or life plan; (ii) any crime arising out of the person's conduct as an underwriter, broker, dealer, investment company, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, floor broker; and (iii) 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.
- b. Any person who, by reason of any misconduct, after hearing or trial, is permanently or temporarily enjoined by order, judgment or decree of the Commission or any court or other administrative body of competent jurisdiction from: (i) acting as an underwriter, broker, dealer,

investment adviser, principal distributor, mutual fund dealer; futures commission merchant; commodity trading advisor, or a floor broker; (ii) acting as a director or officer of a bank, quasi-bank, trust company, investment house, investment company or an affiliated person of any of them; (iii) engaging in or continuing any conduct or practice in connection with any such activity or willfully violating laws governing securities, and banking activities. Such disqualification shall also apply when such person is currently subject to an effective order of the Commission or any court or other administrative body refusing, revoking or suspending any registration, license or permit issued under the Corporation Code, Securities Regulation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or under any rule or regulation promulgated by the Commission or Bangko Sentral ng Pilipinas, or otherwise restrained to engage in any activity involving securities and banking. 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.

c. 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.

d. Any person finally found by the Commission or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas, or who has filed a materially false or misleading application, report or registration statement required by the Commission, or any rule, regulation or order of the Commission.

e. Any person judicially declared to be insolvent.

f. 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 (a) to (e) hereof.

g. Any affiliated person who is ineligible, by reason of paragraphs (a) to (e) hereof to serve or act in the capacities listed in those paragraphs.

h. 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 election or appointment.

The Board may also provide for the temporary disqualification of a director for the following reasons:

a. Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists.

b. 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.

c. 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.

d. Being under preventive suspension by the corporation.

e. If the independent director becomes an officer or employee of the same corporation he shall be automatically disqualified from being an independent director.

f. If the beneficial security ownership of an independent director in the company or in its related companies shall exceed the 10% limit.

(1) He becomes an officer or employee of the corporation where he is such member of the board of directors/trustees, or becomes any of the persons enumerated under Section II (5) of the Code on Corporate Governance;

(2) His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of the company where he is such director;

(3) Fails, without any justifiable cause, to attend at least 50% of the total number of Board meetings during his incumbency;

(4) Such other disqualifications which the covered company's Manual on Corporate Governance provides.

A securities broker-dealer is likewise disqualified from sitting as an independent director of listed companies and registered issuers of securities. The term "securities broker-dealer" shall refer to any person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer.¹²

g. Conviction that has not yet become final referred to in the grounds for the disqualification of directors.

¹² SEC Memorandum Circular No. 16-06, December 21, 2006.