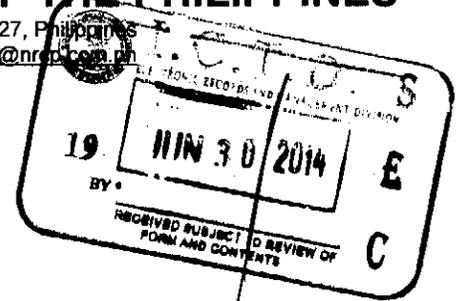




# NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

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June 30, 2014

Securities and Exchange Commission  
SEC Building  
EDSA, Mandaluyong City

**Attention: Atty. Justina F. Callangan**  
Acting Director, Corporate Governance & Finance Department

**Re: Amendment to the Revised Manual of Corporate Governance**

Gentlemen:

We are pleased to submit our Revised Manual of Corporate Governance incorporating the changes required pursuant to *SEC Memorandum Circular No. 9, Series of 2014*.

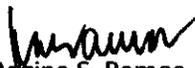
To facilitate your review, we have typed in bold-faced and underlined for emphasis the required changes and which we have reflected in the following pages of the Revised Manual:

- |   |             |
|---|-------------|
| 1. <b>Article 1: Definition of Terms-</b>               | page 3      |
| 2. <b>Article 3: Board Governance-</b>                  |             |
| F) Responsibilities, Duties and Functions of the Board- | pages 9-10  |
| L) The Corporate Secretary-                             | page 24     |
| 3. <b>Article 5: Accountability and Audit-</b>          | page 22     |
| 4. <b>Article 8: Disclosure and Transparency-</b>       | pages 17-18 |

We hope you will find our submission in good order.

Thank you.

Very truly yours,

  
Regina S. Ramos  
Compliance Officer

# Revised Manual on Corporate Governance

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(In compliance with the SEC Memorandum Circular No. 9, Series of 2014)

*This (revised) Manual on Corporate Governance aims to define the responsibilities and accountabilities of the Board of Directors and Officers of the Company. It is the primary source of guidance on all aspects of governance including statutory guidance under which the Company operates.*

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## NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

### REVISED MANUAL OF CORPORATE GOVERNANCE

This Revised Manual on Corporate Governance (the “Manual”) was crafted pursuant to Insurance Commission (“IC”) Circular Letter No. 13-2002, as amended by IC Circular Letter No. 31-2005 dated September 26, 2005, the Revised Code of Corporate Governance of the Securities and Exchange Commission (“SEC”), and other relevant IC and SEC issuances and regulations.

This Manual defines Corporate Governance as the framework of rules, systems and processes in National Reinsurance Corporation of the Philippines (hereinafter referred to as the “Company” or the “Corporation”), that governs the performance of our Board of Directors and Management of their respective duties and responsibilities to **stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which we operate.** It is the primary source of guidance on all aspects of governance including statutory guidance under which the Company operates, and sets the rules governing Board meetings.

The Manual is designed to be an active, flexible and practical document; thus, some information may be duplicated between certain sections. This is to make changes in the Manual easier whenever some sections are modified, amended, revised or updated as the need arises.

#### **A. Commitment to Good Corporate Governance**

We, the Company’s Board and Management, recognize that a good corporate governance system is integral to the mandate bestowed upon us by the Company’s stockholders. We are fully conscious of our fiduciary duties, accountabilities and responsibilities to all stakeholders, and we subscribe to the belief that the pursuit of corporate goals must be bound by high ethical standards. Accordingly, we commit ourselves to the principles in the performance of our functions: Altruism, Integrity, Objectivity, Accountability, Transparency, Probity, Sensible Frugality and Leadership.

As part of the Company’s commitment to corporate governance, it shall establish and implement its corporate governance rules in accordance with the SEC’s Revised Code of Corporate Governance (the “Code”) and other pertinent regulations of the SEC and the IC. The rules shall be embodied in this Manual that can be used as a reference by the members of the Board and the Management of the corporation. This Manual shall be submitted to the Commission within 180 business days from the date of effectivity of the Code to enable the Commission to determine the corporation’s compliance

with the Code, taking into consideration the nature, size and scope of business of the corporation.

In the performance of its duties and responsibilities, as defined in the Company's By-Laws, the Board shall:

- a.1. act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company and its stockholders;
- a.2. stay up-to-date on developments in finance and corporate governance;
- a.3. act with confidentiality and discretion in the use of information proprietary to the Company;
- a.4. avoid any conflict of interest, which may interfere with our exercise of independent judgment;
- a.5. conduct fair business transactions with the Corporation and to ensure that personal interest does not prejudice Board decisions;
- a.6. disclose any relationship that can compromise a Director's independence;
- a.7. foster a non-discriminatory work and business environment, which promote a climate of harmony and tolerance;
- a.8. exercise due prudence in the use of the Company's resources;
- a.9. keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulation;
- a.10. respect the rights of all stakeholders and to take into account their diverse needs in formulating Company policies;
- a.11. submit to a vote of shareholders all matters requiring their approval under the Corporation Code of the Philippines; and
- a.12. adhere faithfully to all laws and regulations defining the Board's obligations.

## **B. The Board of Directors**

### **b.1. Composition and Board Size**

As provided in Company's Amended Articles of Incorporation, the Board of Directors shall consist of thirteen (13) members, at least two of whom must be independent directors. Immediately after their election, they shall meet and shall elect a Chairman and a Vice Chairman of the Board of Directors and a President from among themselves, and shall also elect, not necessarily from among themselves, a Treasurer, a Secretary and such other officers as may be needed to run the affairs of the Corporation.

The non-executive directors must possess qualifications and stature that shall enable them to effectively participate in the deliberations of the Board.

### **b.2. Chairman and CEO**

Considering that the business of insurance is imbued with public interest, the roles of the Chairman and the CEO should, in principle be separate, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

The duties and responsibilities of the Chairman in relation to the Board may include, among others, the following:

- (i) Ensure that the meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary;
- (ii) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors; and
- (iii) Maintain qualitative and timely lines of communication and information between the Board and Management.

A clear delineation of the functions between the Chairman and the CEO shall be made upon their election. If the positions of the Chairman and CEO are unified, proper checks and balances shall be laid down to ensure that the Board gets the benefit of independent reviews and perspectives.

### **b.3. Qualifications and Disqualifications of a Director**

Directors sitting on the Board must own at least one share of stock of the Corporation and shall possess the necessary skills, competence and experience, in terms of management capabilities, and preferably in the field of insurance or insurance-related disciplines. In view of the fiduciary

nature of insurance obligations, Directors shall also be persons of integrity and credibility. Directors of the Company must possess all the qualifications and none of the disqualifications provided under the IC Circular Letter No. 31-2005, SRC Rule 38, the SEC Revised Code of Corporate Governance, and other relevant IC and SEC issuances and regulations.

The Board may also consider the adoption of guidelines on the number of directorships that its members can hold in stock and non-stock corporations. The optimum number should take into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities.

The Chief Executive Officer ("CEO") and other executive directors may be covered by a lower indicative limit for membership in other boards. A similar limit may apply to independent or non-executive directors who, at the same time, serve as full-time executives in other corporations. In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities to the boards they serve should not be compromised.

The Board may also provide for additional qualifications of directors which include, among others, the following:

- (i) College education or equivalent academic degree;
- (ii) Practical understanding of the business of the corporation;
- (iii) Membership in good standing in relevant industry, business or professional organizations; and
- (iv) Previous business experience.

As provided in the SEC Revised Code of Corporate Governance, the following shall be grounds for permanent disqualification of a director:

- (i) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
- (ii) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: (a)

acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if such person is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC, IC or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the SEC, IC, or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

- (iii) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- (iv) Any person who has been adjudged by final judgment or order of the SEC, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the SEC, IC or BSP, or any of its rule, regulation or order;
- (v) Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;
- (vi) Any person judicially declared as insolvent;
- (vii) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (i) to (v) above;

- (viii) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.

Any of the following shall be a ground for the temporary disqualification of a director:

- (i) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.
- (ii) Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.
- (iii) Dismissal or termination for cause as director of any corporation covered by this Code. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.
- (iv) If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.
- (v) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

#### **b.4. Independent Director**

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. He must possess all the qualifications required and none of the

disqualifications of an independent director provided under the IC Circular Letter No. 31-2005, SRC Rule 38, the SEC Revised Code of Corporate Governance, and other relevant IC and SEC issuances and regulations.

#### **b.5. Highlights of Mission and General Responsibility of the Board**

This section of the Code highlights and sets the parameters in respect of some of the Board's duties, as contained in the Company's By-Laws, and in conformity with IC Circular Letter Nos. 13-2002 and 31-2005.

*On corporate philosophy, mission, and strategic and business plans.*

It is the Board's responsibility to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of **its stockholders and other stakeholders**.

The Board recognizes that it represents the owners' interest in having a successful business, including optimal long-term financial returns on their investments; thus, increased shareholders' wealth shall lie at the core of the Company's philosophy and mission.

The Board is equally aware of its obligations to its stockholders, customers, employees and other stakeholders. The diversified interests of these stakeholders shall be given due weights in approving the Company's philosophy and mission.

The Board establishes the general policies and guidelines which will enable Management to render an effective management of the Company, and as part of which undertakes to:

- formulate the Company's vision and mission;
- approve and confirm management's corporate strategies, major plan of actions, risk policy, annual budget and business plan, as recommended by Management;
- monitor the implementation of approved strategies and the Company's performance vis-à-vis targets and goals;
- adopt a succession plan, including the compensation, appointment and training of senior officers;
- review annually the Company's compliance with its Code of Corporate Governance;
- approve corporate policies on major areas of operations, including underwriting, investments, reinsurance claims management and risk management;

- ensure the adequacy and effectiveness of the Company's internal control and management information systems; and
- review and report to the Stockholders its own effectiveness in fulfilling its responsibilities.

#### **b.6. Board Authority, Duties and Functions**

The Board shall exercise its powers and authorities in accordance with the provisions of the Company's By-Laws, in addition to those provided by the Corporation Code and other relevant laws of the Philippines. To ensure a high standard of best practice for the corporation, **the stockholders and other stakeholders**, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- a) Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly-motivated management officers. Adopt an effective succession planning program for Management.
- b) Provide sound strategic policies and guidelines to the corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
- c) Ensure the corporation's faithful compliance with all applicable laws, regulations and best business practices.
- d) Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the corporation. If feasible, the corporation's CEO or chief financial officer shall exercise oversight responsibility over this program.
- e) Identify the corporation's **stakeholders** in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them.
- f) Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the corporation's

internal control system in order to maintain its adequacy and effectiveness.

- g) Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the corporation to anticipate and prepare for possible threats to its operational and financial viability.
- h) Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.
- i) Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
- j) Establish and maintain an alternative dispute resolution system in the corporation that can amicably settle conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including the regulatory authorities.
- k) Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.
- l) Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.
- m) Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

#### **b.7. Specific Duties and Responsibilities of a Director**

A director's office is one of trust and confidence. A director should act in the best interest of the corporation in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the corporation towards sustained progress.

A Director of the Company shall observe the following norms of conduct;

- (i) To conduct fair business transactions with the corporation and to ensure that personal interest does not prejudice Board decisions;
- (ii) To devote time and attention necessary to properly discharge his duties and responsibilities;
- (iii) To act judiciously;
- (iv) To exercise independent judgment;
- (v) To have 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 SEC, and where applicable, the requirements of other regulatory agencies such as the IC;
- (vi) To observe confidentiality;
- (vii) To ensure the continuing soundness, effectiveness and adequacy of the Company's internal control system.

#### **b.8. Board Meetings**

There shall be a regular meeting of the Board of Directors at least every month at such time, date and place as may be designated by the Board. Special meetings of the Board of Directors may be called by the Chairman, or in his absence the Vice-Chairman, or upon written request of at least four (4) directors. The Chairman of the Board of Directors, or in his absence, the Vice-Chairman of the Board shall preside at all meetings.

Directors shall have the duty of preparing and actively participating in board meetings. The members of the board may attend board meetings in person or via teleconferencing conducted in accordance with the rules and regulations of the IC and the SEC.

Independent directors should always attend board meetings. However, their absence shall not affect the quorum requirement.

To monitor the directors' compliance with the attendance requirements, the corporation shall submit to the Commission, on or before January 05 of the following year, an advisement letter on directors' attendance in the Board meetings.

## **b.9. Board and Officers' Remuneration**

### Level of Remuneration

The Board shall set compensation levels adequate to attract and retain qualified Directors.

Compensation for Directors shall be competitive and take into account the duties and other commitments imposed upon them.

The Board shall establish a formal and transparent procedure for developing a policy on executive remuneration packages of Company officers and Directors, and provide oversight over remuneration of senior management and other key personnel ensuring the compensation is consistent with the Company's culture, strategy and control environment.

## **b.10. Board Committees**

The Board shall constitute the proper committees to assist in good corporate governance.

As stipulated in Section 2 of Article V of the Company's By-Laws, the Board shall constitute committees in aid of good governance, namely the Audit Committee, Nomination Committee, Compensation Committee and Risk Management Committee.

### **1. AUDIT COMMITTEE**

The Audit Committee shall be composed of at least three (3) directors, preferably with accounting and finance background, and such other qualifications as may be required under the applicable rules and regulations promulgated by the Insurance Commission and the Securities and Exchange Commission. All the members of the Audit Committee shall be independent directors in order to comply with the IC Code of Corporate Governance. The Audit Committee should meet at least once every quarter. Its main responsibilities include: recommend the appointment of external auditors whose report they review; monitor the system of internal controls and corporate compliance with laws, regulations and code of ethics; serve as a direct channel of communications to the Board for the internal auditors, compliance officers, and the general counsel.

The Audit Committee shall have the following functions:

- a) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;
- b) Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation. This function shall include regular receipt from Management of information on risk exposures and risk management activities;
- c) Perform oversight functions over the corporation's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- d) Review the annual internal audit plan to ensure its conformity with the objectives of the corporation. The plan shall include the audit scope, resources and budget necessary to implement it;
- e) Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- f) Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- g) Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, including financial reporting control and information technology security;
- h) Review the reports submitted by the internal and external auditors;
- i) Review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters:
  - Any change/s in accounting policies and practices

- Major judgmental areas
  - Significant adjustments resulting from the audit
  - Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal and regulatory requirements.
- j) Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- k) Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the corporation's annual report;
- l) Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee.

The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.

## **2. NOMINATION COMMITTEE**

The Nomination Committee shall be composed of at least three (3) members, one of whom shall be an independent director. This committee shall review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board and provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board members.

## **3. COMPENSATION COMMITTEE**

The Compensation Committee may be composed of at least three (3) members, one of whom shall be an independent director. It may establish 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.

#### 4. RISK OVERSIGHT COMMITTEE

The Risk Management Committee was established by the Board in order to assist the latter in the development and oversight of the company's risk management program. The duties and responsibilities of this committee are to:

- be aware of the risks that threaten PhilNaRe's existence, strategy, goals and objectives.
- identify and evaluate risk exposures. RMC shall assess the likelihood of each risk and assess its impact if risk actually occurred.
- develop the risk management plan. RMC shall develop a written plan which defines the appropriate and practical strategies for managing the major risks and for mitigating the losses if the risk materializes.
- implement the risk management plan. RMC shall communicate the risk management plan to PhilNaRe and conduct regular discussions on the current, emerging, or changing risk exposure based on regular management reports. RMC shall guide the company on how to manage these risks.
- review and revise the plan as needed. RMC shall review and evaluate the risk management plan to ensure its continued effectiveness; keep abreast of all changes to the risk profile of PhilNaRe, and revisit risk management strategies and control system.
- report regularly to the Board of Directors the over-all risk exposure of PhilNaRe and the activities undertaken to manage and reduce the risks. RMC shall recommend actions as needed.
- receive reports from management about information on risk exposures and risk management activities.
- oversee and evaluate the system limits and ensure that it remains effective. Oversee that the risk are managed within tolerable levels of PhilNaRe, that the limits are observed and that whenever limits are breached, immediate actions to correct them are taken.

- review and evaluate the development and all major changes to risk policies; assess the adequacy and effectiveness of company's risk management process and help ensure that policies and processes are in place to manage the risks to which PhilNaRe is exposed.
- respect the confidentiality of all information placed before it.

The Chairman and members of the committee shall be appointed by the board by majority vote, and shall be composed by at least five members of the board, three of whom should be independent directors. The Chairman of the committee should be an independent director. The Chief Risk Officer shall serve as secretary of the committee, unless the Board appoints another person to so act as secretary of this committee.

### **C. Financial Reporting, Disclosure, Transparency and Internal Control**

- The Board shall review timely and accurate disclosure on all material matters, including the financial condition, performance, ownership and governance of the Company. Fair, timely and cost-efficient access to relevant information shall be provided to all parties with legitimate interest in the Company.
- The Board and senior management shall receive regular reports on all key aspects of the operations of the Company, which shall include analysis of premium growth, underwriting performance, investment results, claims management and credit control, to provide a sound basis for assessing financial performance and condition, identifying real and potential problems and formulating appropriate policies and strategies.
- The Board shall review faithful compliance with the financial and other reportorial requirements under the Insurance Code.
- The Board shall foster and encourage a corporate environment of strong internal control, fiscal accountability, high ethical standards and compliance with the law and code of conduct.
- The essence of corporate governance is transparency. The more transparent the internal workings of the corporation are, the more difficult it will be for Management and dominant stockholders to mismanage the corporation or misappropriate its assets. It is therefore essential that all material information about the corporation which could adversely affect its viability or the interests of **the stockholders and**

**other stakeholders** should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

- **The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanism for listed companies and submissions to the Commission for the interest of the stockholders and other stakeholders.**

#### **D. The Financial Control System of the Company**

- The Board has the fiduciary duty to protect shareholder value through adequate financial controls; thus, it shall foster and encourage a corporate environment of strong internal control, fiscal accountability, high ethical standards and compliance with the law and code of conduct.
- The Head of the Finance Division is the designated Accounting Officer and carries ultimate responsibility for the finances of the Company. In his review of the effectiveness of internal financial control system, he shall be aided by the internal auditor, the Audit Committee, senior officers responsible thereto, and the external auditor. As Accounting Officer, the Head of the Finance Division shall ensure:
  - propriety and regularity of the Company's finances;
  - the keeping of property accounts;
  - prudent and economical administration; and
  - that the Company's Accounting manual and all current accounting standards set by professional accounting bodies are complied with.

#### **E. Rights of Stockholders and Protection of Minority Stockholders' Interest**

The Board of Directors shall ensure that all the rights of the stockholders as mandated or set forth in the Corporation Code of the Philippines, Articles of Incorporation and By-Laws of the Company shall be respected.

e.1. The Board shall respect the rights of the stockholders as provided for in the Corporation Code; namely:

(i) Right to vote on all matters that require their consent or approval

- Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
- Cumulative voting shall be used in the election of directors.
- A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

(ii) Pre-emptive right to all stock issuances of the corporation

Article Seventh of the Company's Amended Articles of Incorporation contains a denial of the pre-emptive right of the stockholders.

(iii) Right to inspect corporate books and records

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

(iv) 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 shall 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 shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

(v) Right to dividends

- Shareholders shall have the right to receive dividends subject to the discretion of the Board.

- The company shall be compelled to declare dividends when its retained earnings shall be 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.

(vi) Appraisal right

The shareholders' shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

- In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- 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

- In case of merger or consolidation.
- e.2. The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation.

## **F. Accountability and Audit**

- f.1 The Board is primarily accountable to the stockholders. It should provide them with a balanced and comprehensible assessment of the corporation's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.

Thus, it is essential that Management provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management should formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- (i) The extent of its responsibility in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
- (ii) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all **stockholders and other stakeholders**;
- (iii) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
- (iv) The corporation should consistently comply with the financial reporting requirements of the SEC and the IC;
- (v) The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency. The Internal Auditor should submit to the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.

- f.2. The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited

by the SEC and the IC who shall undertake an independent audit of the corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the corporation's annual and current reports. The report shall include a discussion of any disagreement between him and the corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the corporation to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information statement or any report filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

### f.3 Related Party Transactions

Overlapping interests in the company shall be disclosed to the Board and any material transaction involving such interests shall be similarly disclosed. Related party transactions shall be disclosed fully to the board. Prior Board approval shall be obtained for related party transactions.

Related party transactions shall be conducted in terms that are at least comparable to normal commercial practices to safeguard the best interest of the Corporation, its stockholders, creditors, policyholders and claimants.

## **G. Compliance System**

### **1. Responsibility for Good Governance**

Good corporate governance is the responsibility and concern, not only of the Board of Directors and management, but also of each and every employee of the Company.

## 2. The Corporate Secretary

The Corporate Secretary, who should be a Filipino citizen and a resident of the Philippines, is an officer of the corporation. He should —

- (i) Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the corporation;
- (ii) Be loyal to the mission, vision and objectives of the corporation;
- (iii) Work fairly and objectively with the Board, Management stockholders **and other stakeholders**;
- (iv) Have appropriate administrative and interpersonal skills;
- (v) If he is not at the same time the corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- (vi) Have a working knowledge of the operations of the corporation;
- (vii) Inform the members of the Board, in accordance with the by-laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- (viii) Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so;
- (ix) Ensure that all Board procedures, rules and regulations are strictly followed by the members; and
- (x) If he is also the Compliance Officer; perform all the duties and responsibilities of the said officer as provided for in this Code.
- (xi) Issue certification every January 30<sup>th</sup> of the year on the attendance of directors in meeting of the board of directors,

countersigned by the Chairman of the Board, in accordance with SEC Memorandum Circular No. 3, series of 2007.

### **3. The Compliance Officer**

The Board shall appoint a Compliance Officer who shall report directly to the Chairman of the Board. He shall perform the following duties:

- (i) Monitor compliance by the corporation with this Code and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation;
- (ii) Identify and monitor compliance with the rules and regulations of regulatory agencies, and take appropriate corrective measures to address all regulatory issues and concerns;
- (iii) Appear before the IC and the SEC when summoned in relation to compliance with this Code;
- (iv) Issue a certification every January 30th of the year on the extent of the corporation's compliance with this Code for the completed year and, if there are any deviations, explain the reason for such deviation; and
- (v) Prepare and submit to the Insurance Commission and the SEC all reports or disclosures required under this Code;

### **4. Communication, Dissemination**

This Code shall be available for inspection by any stockholder of the Company at reasonable hours on business days.

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

### **5. Adequate and Timely Information**

To enable the members of the Board to properly fulfill their duties and responsibilities, Management should provide them with complete, adequate and timely information about the matters to be taken in their meetings.

Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and the Corporate Secretary.

The information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the corporation's expense.

## **6. Monitoring and Assessment**

The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Code.

This Manual shall be subject to annual review by the Board.

## **H. Penalties for Non-Compliance**

(1) To strictly observe and implement the provisions of this manual, the following penalties shall be imposed, after notice and hearing, on the company's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:

- In case of **first violation**, the subject person shall be reprimanded.
- Suspension from office shall be imposed in case of **second violation**. The duration of the suspension shall depend on the gravity of the violation.
- **For third violation**, the maximum penalty of removal from office shall be imposed.

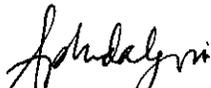
(2) The commission of a third violation of this manual by any member of the board of the company or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.

(3) The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the

Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

SIGNED:

  
REGINA S. RAMOS  
Vice President and Head, Risk and Compliance

  
AUGUSTO HIDALGO  
President and Chief Executive Officer