II BOARD GOVERNANCE

The Board of Directors (the “Board”) is primarily responsible for the governance of the corporation. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.

1.0 Composition of the Board

1.1 The Board consists of nine (9) directors who shall be elected by the stockholders at a regular or special meeting in accordance with the By-Laws of the Company.

1.2 The Board shall have at least (2) independent directors.

1.3 The Chairman of the Board shall be a non- executive director.

1.4 The Board shall include a balance of executive directors and non-executive directors (particularly independent non-executive directors) such that no individual or small group of individuals can dominate the Board’s decision making.

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

2.0 Multiple Board Seats

The Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company.

3.0 Duties and Responsibilities of the Board

The Board of Directors is primarily responsible for the governance of the company. It shall also establish the company's vision, mission, strategic objectives, policies and procedures that shall guide its activities. A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability, integrity, and fairness.

To ensure a high standard of best practice for the Company and its stakeholders, the Board shall:

3.1 Review and adopt a strategic plan for the company.

3.*2* Articulate a corporate culture and ensure that it is lived.

3.3 Set a high moral tone and deep social responsibility**.**

3.4 Oversee the conduct of the company's business to ensure that the business is being properly managed and dealings with policyholders, claimants and creditors are fair and equitable.

3.5 Identify principal business risks and ensure the implementation of appropriate risk management systems to specifically manage the underwriting, reinsurance, investment, financial, and operational risks of the company.

3.6 Establish and oversee the company's enterprise-wide risk management system.

3.7 Review and approve business plans and set up a mechanism for performance monitoring and evaluation***.***

3.8 Approve corporate policies in core areas of operations, specifically underwriting, investment, reinsurance and claims management.

3.9 Plan succession, including appointing, training, fixing the compensation of, and where appropriate, replacing senior management.

3.10 Develop and implement an investor relations program or adopt stockholder communication policy for the company.

3.11 Review the adequacy and the integrity of the company's internal control system and management information systems including systems for compliance with the Insurance Code and other applicable laws, regulations, rules, directives and guidelines.

3.12 Select and appoint officers who are qualified to administer insurance affairs soundly and effectively and to establish an adequate selection process for all personnel.

3.13 Apply fit and proper standards on personnel. It must have integrity, technical expertise and experience in the institution's business, either current or planned, which should be the key considerations in the selection process.

3.14 Establish an appropriate compensation package for all personnel that are consistent with the interest of all its stakeholders.

3.15 Review and approve material transactions not in the company's ordinary course of business.

3.16 Establish a system of check and balance which applies to the Board and its members.

3.17 Have an appropriate system so that the Board can monitor, assess and control the performance of Management.

3.18 Present to all its members and stockholders a balanced and understandable assessment of the company's performance and financial condition.

3.19 Appoint a Compliance Officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.

3.20 Appoint a Chief Risk Officer who shall assist the Board in establishing and overseeing the company's enterprise-wide risk management system and ensuring that it is compatible with its strategy and risk appetite.

3.21 The Board shall be entitled to the services of a Corporate Secretary who must ensure that all appointments are properly made, that all necessary information are obtained from directors, both for the company's own records and for the purposes of meeting statutory obligations , as well as obligations arising from the requirements of the Insurance Commission and other regulatory agencies.

4.0 Members of the Board

Essential standards:

4.1 All directors shall make decisions objectively in the interests of the company.

4.2 Non-executive director shall scrutinize the performance of management in meeting agreed goals and objectives and monitor the performance report.

4.3 Non-executive directors shall constructively challenge and help develop strategic proposals for the company.

4.4 Non-executive directors shall satisfy themselves of the integrity of financial information and financial controls as systems of risk management are robust and defensible.

5.0 Chairman of the Board

In addition to the duties provided in the By-Laws of the Company, the responsibilities of the Chairman in relation to the Board shall include the following:

5.1 To ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chairman may deem necessary.

5.2 To supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the directors and Management; and

5.3 To maintain qualitative and timely line of communication and information between the Board and Management.

If the position of Chairman and President are not separate and matters for resolutions of the Board involve the accountability of Management and there is a perceived conflict of interest in relation thereto, the Chairman must appoint a lead director from among the independent directors to temporarily preside in the meeting to ensure the independence of the Board.

6.0. Internal Control Responsibilities of the Company

6.1 <u>The control environment of the Company consists of:</u>

a. The Board which ensures that the Company is properly managed and effectively supervised;

b. Management that actively manages and operate the Company in a sound and prudent manner;

c. The organizational and procedural controls supported by effective management information and risk management reporting systems; and

d. An independent audit mechanism to monitor the adequacy and effectiveness of the Company's financial reporting, governance, operations and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, confidential information, and compliance with laws, rules, regulations and contracts.

6.2. <u>The Board's internal control mechanisms for the Board's oversight responsibility may include:</u>

a. Definition of the duties and responsibilities of the President who is ultimately accountable for the Company's organizational and operational controls;

b. Selection of a President who possesses the ability, integrity and expertise essential for the position;

c. Establishment by the Company of an internal audit system that can reasonably assure the Board, Management, and stockholders that the Company's key organizational and operational controls are appropriate, adequate, effective, and complied with;

e. Selection and appointment of proposed senior management officers; and

f. Review of the Company's personnel and human resource policies and sufficiency, conflict of interest situations, changes in the compensation plan for employees and succession plan for officers and management.

7.0 Qualifications

7.1 Directors

a. Every director shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company. He must have all the qualifications and none of the disqualifications of a director. The following are the qualifications:

   i. Shall be at least twenty-five (25) years of age at the time of his appointment;

   ii. Possesses college education or the skills needed to effectively carry out his function as director;

   iii. Possesses 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, shall also be persons of integrity and credibility.

   iv. Possesses strong adherence to legal and moral principles.

v. Must have attended a special seminar on corporate governance conducted by a training provider accredited by the Insurance Commission.

b. The Nomination Committee may consider and recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.

7.2 Independent Directors

a. An independent director shall be one who has not been an officer or employee of the corporation, its subsidiaries or affiliates or related interests for at least three (3) years immediately preceding his term or incumbency;

b. He or she is not related within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or majority stockholder of the company or any of its related companies;

c. He or she is not a director or officer of the related companies of the institution's majority stockholders;

e. He or she is not a majority stockholder of the company, any of its related companies, or of its majority shareholder;

f. He or she is not acting as nominee or representative of any director or substantial stockholder of the company , any of its related companies, or any of its substantial stockholders; and

g. 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, i.e., has not engaged and does not engaged in any transaction with the institution, or any of its related companies or any of its substantial stockholders, whether by himself or with other persons or through a form of which he is a partner , director or a stockholder.

8.0 Disqualification of a Director

8.1 Permanent Disqualification

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

a. Person 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;

b. Persons who have been convicted by final judgment of the court for violation of insurance laws;

c. Any person judicially declared as insolvent, spendthrift or unable to enter into a contract;

d. 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

8.2 Temporary Disqualification

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

a. Persons who refuse to fully disclose the extent of his business interest when required pursuant to a provision of law or of a circular, memorandum or rule or regulation of the Insurance Commission. The disqualification shall be in effect as long as the refusal persists.

b. Directors who have been absent(50%) of all regular and special meetings of the board during his incumbency, or any twelve-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.

c. Persons convicted for offenses involving dishonesty, breach of contract or violation of insurance laws but whose conviction has not yet become final and executory;

d. Directors and officers of closed insurance companies and insurance intermediaries pending clearance from the Insurance commission;

e. 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 Insurance Commission;

f. Directors who failed to attend the special seminar on corporate governance. This disqualification applies until the director concerned had attended such seminar;

g. Persons dismissed /terminated from employment for a cause or as director of any corporation covered by the Governance code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.

h. Those under preventive suspension.

i. Persons with derogatory records with the NBI, court, police, involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and /or ability to discharge the duties of an insurance director. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity.

9.0 Board Protocol

9.1 Duties and Responsibilities of a Director

A director shall have the following duties and responsibilities:

a. **To conduct fair business transactions with the insurance company and ensure that his personal interest does not conflict with the interest of the Company.** Directors, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institutions cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others the basic principle to be observed is that a director shall not use his position to make profit or to acquire benefit or advantage for himself and/ or his related interest, He shall avoid situations that would compromise impartiality.

b. **To devote time and attention necessary to properly discharge and effectively perform his duties and responsibilities**. Directors shall devote sufficient time to familiarize themselves with the institution’s business. They must constantly be aware of the institution’s condition and be knowledgeable enough to contribute meaningfully to the board’s work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.

c. **To act judiciously.** Before deciding on any matter brought before the board of directors, every director shall thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

d. **To exercise independent judgment.** A director shall view each problem/ situation objectively. When a disagreement with others occurs, he shall carefully evaluate the situation and state his position. He shall not be afraid to take a position even though it might be unpopular. Corollarily, he shall support plans and ideas that he thinks will be beneficial to the institution.

e. **To have a working knowledge of the statutory and regulatory requirements affecting the Institution, including the contents of its articles of incorporation and by-Laws, the requirements of the Securities and Exchange Commission, Insurance Commission, and where applicable, the requirements of other regulatory agencies.** A director shall also keep himself informed of the industry developments and business trends in order to safeguard the institution’s competitiveness.

f. **To observe confidentiality of information.** Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other persons without the authority of the Board.

g. **To act honestly, in good faith, and with loyalty to the best interest of the institution, its stockholders, (regardless of the amount of their stockholdings) and other stakeholders such as its policyholders, investors, borrowers, other clients and the general public.** A director must always act in good faith with care which an ordinarily prudent man would exercise under similar circumstances, while a director shall always strive to promote the interest of all stockholders. He shall also give due regard to the rights and interest of other stakeholders.

h. **To ensure the continuing soundness, effectiveness and adequacy of the company's control environment.**

i. **Insurance companies shall furnish all of their directors a copy of the specific duties and responsibilities of the Board of Directors as well as the specific duties and responsibilities of a director within thirty (30) working days,** in case of incumbent directors and at the time of election in case of directors elected after the issuance of the Corporate Governance code.

j. **The directors concerned shall each be required to acknowledge receipt of the copies of such specific duties and responsibilities and shall certify that they fully understand the same.**

9.2 Expectations of Directors

a. The Directors recognize their duty of loyalty to the company and to the Board, and agree that outside the boardroom they will support the latter's decisions when in contact with other parties.

b. Directors have a duty not to use information obtained as Directors for the benefit of themselves or any person or persons linked to them.

c. No Director should act in a way likely to bring discredit to the organization

d. Directors have a right and duty to consider properly all matters brought to the Board. Attendance at Board meetings is important and, if unable to attend, he or she should advise the Corporate Secretary in advance.

e. Directors have a right and duty to raise matters of serious concern at Board meetings.

f. Directors are expected to be frank and open in Board meetings and to question, request information, and raise issues.

g. Directors are expected to complete the Seminar on Corporate Governance conducted by a training provider accredited by the Insurance Commission.

h. Directors are expected to keep themselves up to date with the affairs of the organization and the Board.

i. Each Director has an obligation to declare any material conflict of interest as soon as he or she becomes aware of it, and to withdraw from the discussion and decision of any matter on which he or she has a material conflict, unless the Directors who do not have a conflict have resolved that the Director should stay. Directors agree to notify the Chairman of any actual or potential conflict as soon as they are aware of it (if possible before the beginning of the meeting at which the issue is likely to be raised) and to withdraw from any discussions relating to it, unless invited to remain . The guidance of the Chairman will normally be accepted on such matters.

9.3 Director's Rights

a. Directors have a right to identify the information they need and receive it in a timely way.

b. Individual Directors have a right to obtain information necessary for them to discharge their duties from executives employed by the company.

c. Outside specialist advice at the company's expense is advice to the Board as a whole and should normally be arranged by the president at the request of the Board.

9.4. Compensation of Directors

Directors, as such, shall not receive any compensation unless approved by the stockholders or provided in the By Laws of the Company. No director should participate in the approval of his compensation. However, the Board may, from time to time, approve a reasonable per diem that a director may receive for attendance in Board and Board Committee meetings

9.5 Directors ‘ Resignation

The Directors vacate office if he or she resigns by written notice address to the Board.

10.0 Performance Evaluation

10.1 A formal and rigorous annual evaluation of the Board’s own performances and that of its committees and individual directors shall be undertaken.

10.2 The Chairman shall act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of each director. He may propose appointment of new members to the Board or seek the resignation of directors.

10.3 Performance evaluation of the Board, its committees and its individual directors shall be conducted and reported in the annual report.

10.4 Performance evaluation of the Chairman shall be made by non-executive directors, led by senior independent director, taking into account the views of executive directors.