

**MEDICARD PHILIPPINES, INC.**

**CORPORATE GOVERNANCE POLICY  
AND PROCEDURE MANUAL**

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<b>Related Policies and Standards</b>	AIA Group Code of Conduct Insider Trading and Abusive Dealing Policy Related Party Transactions Policy Anti-Corruption Policy Conflict of Interest Policy Employee Health Safety and Welfare Policy And all other relevant Corporate Governance Policies Board and Board-Committee Charters

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## 1. Corporate Governance Policy

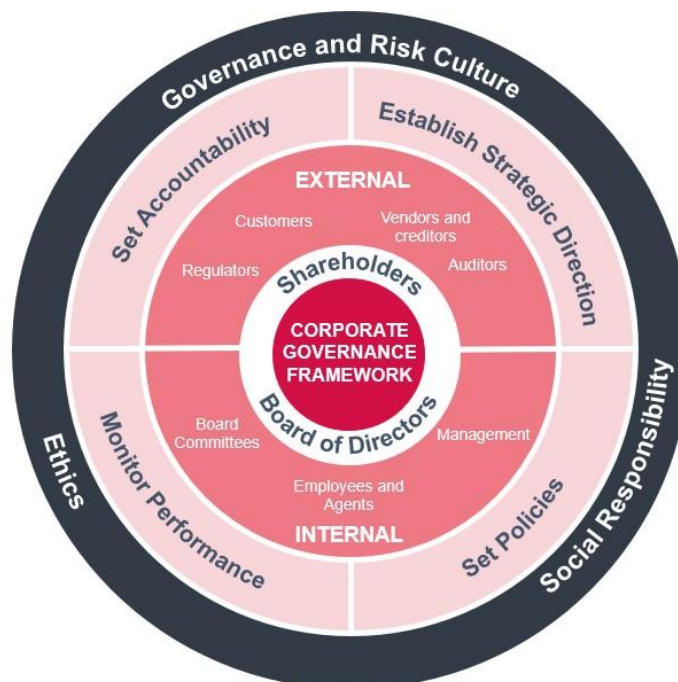
MEDICard Philippines, Inc. Board of Directors is ultimately responsible for the sustainable performance of the Company, including its consistent achievement of business plans and compliance with statutory as well as corporate obligations.

To fulfill its responsibility, the Board hereby adopts a policy of adherence to all legislations, regulations, and statutory standards, as maybe applicable and relevant. These will include, in particular, the Revised Corporation Code of the Philippines, issuances of the Insurance Commission, the Securities and Exchange Commission and other government agencies regulating the Company's business operations.

The Board, management, and staff of the Company shall commit themselves to adhere to the principles of good governance as embodied in its Articles of Incorporation, By-Laws, Code of Conduct, as well as regulatory issuances on good governance.

Where the Company considers them relevant and appropriate to its operations, the Board shall also observe industry standards, codes and other formal requirements.

## 2. Corporate Governance Framework and Manual



The Board recognizes its responsibility to provide effective corporate governance oversight of the Company's affairs and declares its commitment to the corporate governance principles and leading practices. Accordingly, the Board has adopted this Corporate Governance Manual to assist it in the discharge of its duties and responsibilities.

The Manual is in addition to and is not intended to change any applicable laws or regulation, or the Charter or By-laws of the Company. The Board in its discretion may modify or make exceptions to the Manual from time to time, consistent with the duties and responsibilities it owes to the Company, the shareholders, and the stakeholders.

### 3. Definition of Terms

**Corporate Governance** - the system of stewardship and control to guide the Company in fulfilling its long-term economic, moral, legal and social obligations towards its stakeholders. It is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society. Its purpose is to maximize the Company’s long-term success, creating sustainable value for its shareholders, stakeholders and the nation.

**Board of Directors** – the governing body elected by the stockholders that exercises the corporate powers of the Company, conducts all its business and controls its properties.

**Management** – a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the Company.

**Independent Director** – a person who is independent of management and the controlling shareholder and is 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.

**Executive Director** – a director who has executive responsibility of day-to-day operations of a part or the whole of the Company.

**Non-executive Director** – a director who has no executive responsibility and does not perform any work related to the operations of the Company.

**Internal control** – a process designed and effected by the Board of Directors, Senior Management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, and the organization’s policies and procedures.

**Enterprise Risk Management** – a process, effected by the Company’s Board of Directors, management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.

**Related Party** – shall cover the Company’s subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities), that the Company exerts direct or indirect control over or that exerts direct or indirect control over the Company; the Company’s directors; officers; shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person or juridical entity whose interest may pose a potential conflict with the interest of the Company.

**Related Party Transactions** – a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

**Stakeholders** – any individual, organization or society at large who can either affect and/or be affected by the Company’s strategies, policies, business decisions and operations, in general. This includes,

among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.

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## 4. The Board of Directors

The Board of Directors of the Company is the governing body elected by the stockholders that is given authority by law to exercise the corporate powers of the Company, conducts all its business and controls its properties. Thus, to effectively perform its mandate, it is necessary that it should be composed of directors with collective working knowledge, experience or expertise that is relevant to the Company's business and industry. It should have an appropriate mix of competence and expertise, and its members should remain qualified for their positions individually and collectively to enable it to fulfill its roles and responsibilities and respond to the needs of the Company based on the evolving business environment and strategic direction.

### 4.1 Board Composition

To effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balance, the Board of Directors of the Company shall be composed of at least eight (8) members, majority of whom shall be preferably composed of non-executive directors and at least three (3) of whom shall be independent directors. The directors shall possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

Non-Filipino citizens may become members of the Board of Directors to the extent of the foreign participation in the equity of the Company, provided, that majority of the directors must be residents of the Philippines.

### 4.2 Board Balance, Diversity and Independence

The MEDICard Philippines, Inc. Board of Directors shall endeavor a balance composition of executives and nonexecutive directors, such that, no individual or small group of individuals can dominate the Board's decision making. The Board shall determine whether a director is independent in character and judgment, or there are relationships or circumstances which are likely to affect the director's judgment. The Company shall identify in its Annual Report its non-executive independent directors.

The Board also recognizes the benefits of having a diverse Board as an essential element in maintaining a competitive advantage and achieving optimal decision-making. The Board shall consider diversity in age, gender, ethnicity, culture, race, skills, regional and industry experience and background, and other distinctions in determining the composition of the Board of Directors.

The Board shall ensure that each director does not have, directly or indirectly, a financial, legal or other relationship with the Company that would reasonably interfere with the exercise of independent judgment in carrying out his or her responsibilities.

### 4.3 Multiple Board Seats

The optimum number of directorships shall be generally related to the capacity of a director to diligently and efficiently perform his duties and responsibilities to the Board which should not be compromised.

The non-executive directors of the Board, on the other hand, should endeavor to concurrently serve as directors to a maximum of five (5) publicly listed companies only to ensure that they have sufficient time to effectively perform their functions and duties as members of the Board of the Company.

Each director is thus required to disclose their incumbent directorship to the Board or the Company of his directorships in other companies, or before accepting a new directorship in another company, to enable the Board to adequately assess his capability to perform his responsibilities and commitment to the Company.

#### **4.4 Roles and Responsibilities of the Board**

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

To ensure a high standard of best practice for the Company and its stockholders and stakeholders, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- a. Act on a fully informed basis in good faith, with due diligence and care and in the best interest of the Company, its shareholders and stakeholders;
- b. Oversee the development of and approve on an annual or quarterly basis the Vision, Mission, Goals, Business Objectives, Strategies and Capital Plans of the Company, and monitor their implementation in order to sustain the Company's long-term viability and strength;
- c. Appoint on an annual basis a competent and qualified Chairman of the Board, the Chief Executive Officers, and the Senior Management Officers of the Company;
- d. Ensure and adopt an effective succession planning program for directors, key officers and management to ensure growth a continued increase in the shareholder's value. This should include adopting a continued increase adopting a policy on the retirement age for directors and key officers as part of management succession to promote dynamism in the Company;
- e. Align the remuneration of key officers and board members with the long-term interests of the Company. In doing so, it should formulate and adopt a policy specifying the relationship between remuneration and performance. Further, no director should participate in discussions or deliberations involving his own remuneration;
- f. Have a formal and transparent board nomination and election policy that should include how it accepts nominations from minority shareholders and reviews nominated candidates;
- g. Ensure that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality. The policy should include appropriate review and approval of material or significant RPTs, which guarantee fairness and transparency of the transactions; and encompass all entities within the group, taking into account their size, structure, risk profile and complexity of operations;
- h. Approve the selection and assessment of the performance of the Management led by the Chief Executive Officer (CEO), and control functions led by their respective heads (Chief Risk Officer, Chief Compliance Officer, and Head of Internal Audit);
- i. Establish an effective performance management framework that will ensure that the Management, including the CEO, and personnel's performance are at par with the standards set by the Board and Senior Management;

- j. Oversee that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflict of interest of Management, board members, and shareholders. The Board shall also approve the Internal Audit Charter;
- k. Oversee that a sound enterprise risk management (ERM) framework is in place to effectively identify, monitor, assess and manage key business risks of the Company, and to enable the Board to identify business units and enterprise-level risk exposures, as well as the effectiveness of risk management strategies;
- l. Have a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties. The Charter should serve as a guide to the directors in the performance of their functions and should be publicly available and posted on the Company's website;

In addition to the above, the Board should also have the following specific roles and responsibilities to the Company:

- m. Oversee the conduct of Company's business to ensure that the business is being properly managed and dealings with policyholders, claimants, and creditors are fair and equitable;
- n. Approve corporate policies in core areas of operations, specifically underwriting, investments, reinsurance, and claims management;
- o. Develop and implement an investor relations program or adopt shareholder communications policy for the Company;
- p. Have an appropriate reporting system so that the Board can monitor assess and control the performance of Management;
- q. Present to all its shareholders a balanced and understandable assessment of the Company's performance and financial conditions;
- r. Ensure the Company's faithful compliance with all applicable laws, regulations and best business practices;
- s. Declare and approve Policyholder dividends;
- t. Elect a Director, in case of vacancy, in accordance with the applicable provisions of the Revised Corporation Code of the Philippines;
- u. Determine and approve the compensation of independent directors;
- v. Approve the Charter, By-laws, Corporate Governance Manual, Code of Business Conduct and Ethics, and other corporate governance documents, as may be appropriate, and any amendments thereto, and ensure fulfillment of all duties and responsibilities set forth therein;
- w. Subject to the requirements of the law, review and approve mergers, joint ventures, acquisitions and/or takeovers, which includes the authority to appoint an independent party to evaluate and determine the financial viability of the transaction;
- x. Perform such other duties and responsibilities as may be required by applicable laws or regulations or Company policy or in connection with a matter over which the Board has authority;



#### 4.5 Specific Duties and Responsibilities of a Director

A director's position is one of trust and confidence. A director should act in the best interest of the Company, its shareholders and stakeholders in a manner characterized by transparency, accountability and fairness. He or she should also exercise leadership, prudence and integrity in directing the Company towards sustained progress.

The Directors of the Company shall observe the following norms of conduct:

- a. The Board shall act on a fully informed basis in good faith, with due diligence and care and in the best interest of the Company, its shareholders and stakeholders;
- b. Conduct fair business transaction with MEDICard Philippines, Inc. to ensure that personal interest does not bias Board decisions and the interest of the Company;
- c. 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 that 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 related interests. He shall avoid situations that would compromise impartiality. A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the Company, or stands to acquire or gain financial advantage at the expense of the Company;
- d. 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;
- e. Devote time and attention necessary to properly discharge their duties and responsibilities. Directors shall devote sufficient time to familiarize themselves with the Company's business. They must constantly be aware of the Company'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 Company, he should neither accept his nomination nor run for election as member of the Board;
- f. Act judiciously. Before deciding on any matter brought before the Board of Directors, every director shall thoroughly evaluate the issues, ask questions, and seek clarification when necessary;
- g. 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 Company;
- h. Have a working knowledge of the statutory and regulatory requirements affecting MEDICard Philippines, Inc., including the contents of the Articles of Incorporation and By-laws, the requirements of the Insurance Commission, and where applicable, the requirements of other government agencies. A director shall also keep himself informed of the industry

developments and business trends in order to promote and safeguard MEDICard Philippines, Inc.'s competitiveness; and

- i. Observe confidentiality. 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 person without the authority of the Board of Directors

The directors shall be furnished a copy of the duties and responsibilities of the Board of Directors as well as specific duties and responsibilities of the directors within thirty (30) working days from the date of their election. The directors concerned shall each be required to acknowledge receipt of the copies of such specific duties and responsibilities and shall certify they fully understand the same.

#### **4.6. Nomination in the Board**

In nominating the Board of Directors, the Company greatly encourages and relies on shareholders' participation in order to elect a competent Board. It also significantly recognizes the rights of the minority shareholders to nominate and reviews candidates. In the Board's nomination and election process, transparency is always ensured.

#### **4.7. Nomination, Election and Replacement of a Director**

The process of identifying the quality of directors should be aligned with the strategic direction of the Company. The directors of the Company should have working knowledge, experience or expertise that is relevant to the Company's business and industry. They should have the necessary competence and expertise to enable them to fulfill their roles and responsibilities and respond to the needs of the Company. The directors shall possess all qualifications and none of the disqualifications that would enable them to effectively participate in the deliberations of the Board.

There shall be formal, rigorous, and transparent procedures for the selection and appointment of directors of the Board. Election and/or appointments to the Company's Board of Directors shall be made on merit and subject to objective criteria. In the nomination and election process, the Board and the shareholders shall review and evaluate the qualifications of all persons nominated in the Board, including whether the candidates: 1) possess the knowledge, skills, competence and experience, in terms of management capabilities, preferably in the field of insurance or insurance related disciplines; 2) in the case of non-executive independent directors, independence of mind given their responsibilities to the Board and in light of the Company's business and risk profile; 3) have a record of integrity, credibility and good repute; 4) have sufficient time to carry out their responsibilities; and 5) have the ability to promote a smooth interaction between board members. In searching for qualified candidates, the Company may resort to the use of professional search firms or external sources.

Each director shall be at least twenty-five (25) years of age at the time of his election/appointment and must have attended a special seminar on Corporate Governance conducted by a training provider accredited by the Insurance Commission.

Every director must own at least one (1) share of the capital stock of the Company which share shall stand in his name on the books of the Company.

All directors shall be subject to election by the shareholders of the Company at the annual stockholders' meeting after their nomination, and to be re-elected thereafter on an annual basis. The names of directors nominated for election or re-election by the Governance, Nomination and Compensation Committee shall be accompanied by sufficient biographical details and any other relevant information to enable shareholders to have knowledge of their decision on their election.

#### **4.8. Permanent Disqualification of a Director**

The Company shall also continuously monitor the qualifications of its directors. In addition to the grounds set forth by applicable laws or regulations, the following may be considered as ground for the permanent disqualification of a directors:

- a. 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;
- b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, Bangko Sentral ng Pilipinas (BSP) 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 should also apply if (a) such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Revised Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the Commission or BSP; (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c) such person is 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;

- c. 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, malversation, forgery, bribery, false affirmation, extortion, perjury or other fraudulent acts;
- d. Any person who has been adjudged by final judgment or order of the IC, SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Revised Insurance Code, Revised Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the IC, SEC or BSP;
- e. Any person judicially declared as insolvent, spendthrift, or unable to enter into a contract;
- f. 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 previously;
- g. Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Revised Insurance Code or the Revised Corporation Code committed within five (5) years prior to the date of his election or appointment; and

- h. 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.
- i. Other grounds as the IC and the SEC may provide.

#### **4.9. Temporary Disqualification of a Director**

On the other hand, the following may be grounds for temporary disqualification of a director:

- a. Refusal 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 or company policy. This disqualification shall be in effect as long as the refusal persists;
- b. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during the director's incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election;
- c. Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from IC or the SEC. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
- d. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceed two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and
- e. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.
- f. If the director fails to attend the required seminar on corporate governance. This disqualification applies until the director concerned had attended such seminar;
- g. Persons convicted for offenses involving dishonesty, breach of contract or violation of insurance laws but whose conviction has not yet become final and executory;
- h. Directors and officers of closed insurance companies and insurance intermediaries pending clearance from the Insurance Commission;
- i. 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 of the Insurance Commission;
- j. Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity;
- k. Those under preventive suspension;
- l. Persons with derogatory records with the NBI, court, police, Interpol and insurance authorities of other countries (for foreign directors) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability

to discharge the duties of an insurance director. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity;

- m. Persons who are 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 a 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 1,2, and 4.

This disqualification should be in effect as long as the delinquency persists.

On a regular basis, the Board should assess the effectiveness of the Board's processes and procedures in the nomination, election, or replacement of a director.

#### **4.10. Board Meetings**

The directors should devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the Company's business. Thus, the directors should attend and actively participate in all meetings of the Board, Committees, and Shareholders in person or through tele/videoconferencing conducted in accordance with the By-Laws of the Company and the rules and regulations of the IC and SEC, except when justifiable causes, such as illness, death in the immediate family and serious accidents, death in the immediately family and serious accidents, prevent them from doing so.

Each of the director is encouraged to attend at least 75% of all Board meetings every year, and the absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency may be a ground for disqualification in the succeeding election, unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.

Unless otherwise provided by law or the Company By-Laws, majority of the directors shall constitute a quorum to transact corporate business, provided that when a Board decision is required, a minimum quorum of 2/3 of the directors shall be required, except for the election of officers which shall require the vote of majority of all the members of the Board, shall be valid as a corporate act.

The Company Secretary shall ensure that meetings are scheduled and timely communicated to the Board before the start of the financial year. The Board shall meet regularly, preferably every quarter,

but at least six (6) times a year, at such date, time, and place to be fixed by the Board. Special meetings may also be convened anytime as the need arises.

The non-executive and independent directors are also encouraged to meet separately at least once a year without the presence of any executives of the Company. The Independent Directors, together with the non-executive directors, are also encouraged to have separate periodic meetings with the external auditors and Head of Internal Audit, compliance and risk functions, without and executive directors present to ensure proper checks and balances are in place within the Company. Such meeting shall be chaired by the lead independent director.

#### **4.11. Board Orientation and Annual Continuing Training Program**

##### **a. On-boarding training for new directors**

The Board, with the assistance of the Corporate Secretary, shall ensure that first-time directors are given the necessary orientation program. Orientation program shall cover Insurance Commission (IC) mandated topics on corporate governance and an introduction to the company's business, Articles of Incorporation, By-Laws, the Code of Conduct and other relevant policies. It should be able to meet the specific needs of the company and the individual directors and aid any new director in effectively performing his or her functions.

##### **b. Annual board training**

All directors shall be provided with annual continuing training to promote effective board performance and continuing qualification of the directors in carrying-out their duties and responsibilities. The annual training is aimed at providing the board with continuous information of the developments in the business and regulatory environment, including emerging risks relevant to the company. The training program should include Insurance Commission (IC)-mandated topics on corporate governance, specifically:

- a. Code of Corporate Governance for IC-regulated companies
- b. ACGS and IC Annual Corporate Governance Report
- c. Board Responsibilities
- d. Illegal activities of corporations/directors/officers
- e. Protection of minority shareholders
- f. Liabilities of directors
- g. Confidentialities
- h. Conflict of interest i Related-party transactions
- j. Enterprise risk management;
- k. Case studies and financial reporting; and,
- l. Audit.

Annual board training shall also include such other courses and coverage that the Board may deem appropriate for its training and development needs.

## **5. The Chairman and the Chief Executive Officer**

The roles of the Chairman of the Board and the Chief Executive Officer (CEO) should, as much as practicable, be separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board. There should be a clear delineation of functions and responsibilities between the Chairman of the Board and the CEO to facilitate effective decision marking and good governance.

If the Chairman of the Board is not an independent director, or if the positions of the Chairman and the CEO are unified, proper check and balance mechanism should be laid down to ensure that the Board gets the benefit of independent views, perspective and judgment. In such case, the Board may designate an independent director as lead director who shall have sufficient authority to lead the Board in cases where management has clear conflicts of interest. He shall, among others, have the following functions: serve as an intermediary between the Chairman and the other directors when necessary; convene and chairs meetings of the non-executive directors; and contribute to the performance evaluation of the Chairman, as required.

### **5.1. Chairman of the Board**

In addition to the powers and functions provided by the applicable laws and the Company By-Laws, the Chairman of the Board, who shall be a non-executive director, shall also have the following roles and responsibilities:

- a. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations.
- b. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions.
- c. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- d. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- e. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
- f. Makes sure that performance of the Board, the Committees, the Directors, the Chairman and the CEO is evaluated at least once a year and discussed/followed up on.

### **5.2. Chief Executive Officer (CEO)**

The CEO, on the other hand, shall exercise general supervision and administration over all the affairs of the Company. In addition to his powers and responsibilities as provided in the applicable laws and the Company By-Laws, he shall also have the following roles and responsibilities:

- a. Determines the corporation's strategic direction and formulates and implements its strategic plan on the direction of the business.
- b. Communicates and implements the Company's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same.
- c. Oversees the operations of the Company and manages human and financial resources in accordance with the strategic plan.
- d. Ensures having a good working knowledge of the Company's industry and market and keeps up-to-date with its core business purpose.
- e. Directs, evaluates and guides the work of the key officers of the Company.

- f. Manages the Company's resources prudently and ensures a proper balance of the same.
- g. Provides the Board with timely information and interfaces between the Board and the employees.
- h. Builds the corporate culture and motivates the employees of the Company.
- i. Serves as the link between internal operations and external stakeholders.

## 6. Independent Directors

The presence of an Independent Directors in the Board should ensure the exercise of independent judgment on corporate affairs and proper oversight of managerial performance, including prevention of conflict of interests and balancing of competing demands of the Company. The Board thus should ensure that its independent directors possess the necessary qualifications and none of disqualifications for them to hold the position.

An Independent Director refers to a person who, ideally:

- a. Is not, or has not been a senior officer or employee of the company unless there has been a change in the controlling ownership of the Company;
- b. Is not, and has not been in the three (3) years immediately preceding the election, a director of the company; a director, officer, employee of the Company's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the Company's substantial shareholders and its related companies;
- c. Has not been appointed in the Company, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his election;
- d. Is not an owner of more than two percent (2%) of the outstanding shares of the Company, its subsidiaries, associates, affiliates or related companies;
- e. Is not a relative of a director, officer, or substantial shareholder of the Company or any of its related companies or of any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;
- f. Is not acting as a nominee or representative of any director of the Company or any of its related companies;
- g. Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers 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, an associated person or salesman, and an authorized clerk of the broker or dealer;
- h. Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the Company, any of its related companies or substantial shareholder, or is otherwise independent of Management and



free from any business or other relationship within the three (3) years immediately preceding the date of his election;

- i. Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the Company or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgement;
- j. Is not affiliated with any non-profit organization that receives significant funding from the Company or any of its related companies or substantial shareholders; and
- k. Is not employed as an executive officer of another company where any of the covered company's executives serve as directors.

Related companies, as used in this section, refer to (a) the covered entity's holding/parent company; (b) its subsidiaries; and (c) subsidiaries of its holding/parent company.

### **6.1. Minimum Qualifications of an Independent Director**

An Independent Director shall be at least a college graduate or have been engaged or exposed to the business of the Company for at least (5) years. He shall also possess proven integrity, probity, and independence.

Independent Directors shall be subject to rules and regulations governing their qualifications, voting requirements, duration of term and term limit, maximum number of board memberships and other requirements that the IC, SEC and the company will prescribe to strengthen their independence and align with international best practice.<sup>1</sup>

### **6.2. Term Limit of Independent Directors**

Each Independent Director shall serve for a maximum cumulative term of nine (9) years, to be reckoned from 02 January 2015, after which, he shall be perpetually barred from any re-election in the Company but may continue to qualify for nomination and election as a non-independent director. However, if the Company desires to continue the services of an Independent Director who has already served the maximum term limit of nine (9) years, said Independent Director, as an exception, may still continue to act as such provided that the such re-appointment is approved by the shareholders of the Company during the annual shareholders meeting, and the Board submit a formal written justification of said re-appointment to the Insurance Commission.

## **7. Annual Shareholders Meeting and Minutes**

The annual shareholders meeting of the Company shall be held annually on the date fixed in the Company's By-Laws. Notice of the annual meeting shall be sent to shareholders at least 21 days prior to the meeting. The notice may be sent to through electronic mail or such other manner as the SEC shall allow under its guidelines. During the meeting of the shareholders, the Board shall endeavor to present, among others, the following:

- a. The minutes of the most recent shareholder meeting;
- b. The material information on the current stockholders, and their voting rights;

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<sup>1</sup> Section 23. Revised Corporation Code of the Philippines (R.A. No. 11232)

- c. A financial report for the preceding year, which shall include financial statements duly signed and certified in accordance with law, a statement of the adequacy of the Company's internal controls or risk management systems, and a statement of all external audit and non-audit fees;
- d. An explanation of the dividend policy and the fact of payment of dividends or the reasons for non-payment thereof;
- e. Director profiles which shall include, among others, their qualifications and relevant experience, length of service in the Company, trainings and continuing education attended, and their Board representations in other companies;
- f. A director attendance report, indicating the attendance of each director at each of the meetings of the Board and its Committees and in regular or special shareholder meetings;
- g. Appraisals and performance reports for the Board and the criteria and procedure for assessment;
- h. A director compensation report prepared in accordance with law and rules the IC or SEC may prescribe; and/or
- i. The profiles of directors nominated or seeking election or re-election.<sup>2</sup>
- j. The conduct and results of the annual board assessment, review of Chairman', individual director', and committee' performance to allow for shareholders' feedback, if any.

A director or shareholder may also propose any other matter for inclusion in the agenda at any regular meeting of the shareholders. Shareholders should also be given the opportunity to ask questions to the Board, including questions relating to the annual external audit and to propose resolutions subject to reasonable limitations.

Before the start of the election of the members of the Board of Directors, the Corporate Secretary shall inform the shareholders of the voting method and counting system to be used.

At all elections of directors, there must be present, either in person or through a representative authorized to act by written proxy, the owners of majority of the outstanding capital stock. Since the Company is vested with public interest, the shareholders may also vote through remote communication or in absentia. A stockholder or member who participates through remoted communication or in absentia, shall be deemed present for purposes of quorum.<sup>3</sup>

Shareholders entitled to vote shall have the right to vote the number of shares of stock standing in their own names in the stock books of the Company at the time fixed in the By-Laws or where the By-Laws are silent, at the time of the election. The stockholders may at their option: a) vote such number of shares for as many persons as there are directors to be elected; b) cumulate said shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by the number of shares owned; c) distribute them on the same principle among as many candidates as may be seen fit. The total number of votes cast shall not exceed the number of shares owned by the shareholders as shown in the books of the Company multiplied by the whole number of directors to be elected.

The Minutes of Meeting include, among others, the following matters:

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<sup>2</sup> Section 49. Revised Corporation Code (R.A. No. 11232)

<sup>3</sup> Section. 23. Revised Corporation Code (R.A. No. 11232)

- a. A description of the voting and the vote tabulation procedures used;
- b. the opportunity given to shareholders to ask questions, as well as a record of the questions and the answers received;
- c. the matters discussed and the resolutions reached;
- d. a record of the voting results for each agenda item;
- e. a list of the directors, officers and shareholders who attended the meeting;
- f. dissenting opinion on any agenda item that is considered significant in the discussion process; and
- g. such other items that IC or SEC may require in the interest of good corporate governance and the protection of the minority stockholders.

## 8. Board Support

### 8.1. Corporate Secretary

The Board of Directors shall appoint a Corporate Secretary who shall be a Filipino citizen capable of carrying out the duties to which the post entails and his removal shall be a matter for the entire Board to decide. The Corporate Secretary, who must have sufficient background and training in legal, accounting, and company secretarial practices, shall ensure that all appointments are properly made, and 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. The Corporate Secretary should be a separate individual from the Compliance Officer; should not be a member of the Board of Directors' and should annually attend a training on corporate governance.

The Corporate Secretary, who is primarily responsible to the Company and its shareholders, and not to the Chairman and CEO of the Company, shall also have, the following responsibility:

- a. Assists the Board and the Board Committees in the conduct of their meetings, including preparing the annual schedule of the Board and Committee meetings and the annual Board Calendar, and assisting the Chairs of the Board and its committees to set agendas for those meetings;
- b. Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its Committees, as well as other official records of the corporation;
- c. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;
- d. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and management, the Board and its Committees, and the Board and its stakeholders, including shareholders;
- e. Advises on the establishment of Board Committees and their Charters;
- f. Informs members of the Board, in accordance with the By-Laws, of the agenda of their meetings at least five (5) working days in advance, and ensures that the members have before

them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

- g. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
- h. Performs required administrative functions;
- i. Oversees the drafting of the By-Laws of the Company and ensures that it conforms with the requirements of the regulators such as the IC and the SEC;
- j. Ensures that all Board procedures, rules and regulations are strictly followed by the members;
- k. Ensures proper onboarding of new directors (i.e., orientation on the Company's Business, Manual/Charter, Articles of Incorporation and By-Laws, among others), and annual continuing training for all directors;
- l. Performs such other duties and responsibilities as may be provided by the Insurance Commission (IC) and the Securities and Exchange Commission.

## **8.2. Compliance Officer**

The Board shall also appoint a Compliance Officer of the Company, who should be a senior officer with adequate stature and authority in the Company. The Compliance Officer should not be a member of the Board of Directors and should annually attend a training on corporate governance.

Similar to the Corporate Secretary, the Compliance Officer shall be primarily liable to the Company and its shareholders, and not to the Chairman or CEO of the Company, and shall have the following duties and responsibilities:

- a. Monitors, reviews, evaluates and ensures the compliance by the Company, its officers and directors with the relevant laws, this Code, rules and regulations and all governance issuances of regulatory agencies;
- b. Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;
- c. Ensures the integrity and accuracy of all documentary submissions to regulators;
- d. Appears before the SEC and IC when summoned in relation to compliance with their Code of Corporate Governance;
- e. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- f. Identifies possible areas of compliance issues and works towards the resolution of the same;
- g. Ensures the attendance of board members and key officers to relevant trainings; and
- h. Performs such other duties and responsibilities as may be provided by the IC and the SEC.

## 9. Board Committees

The Board shall constitute the appropriate Board Committees to support the effective performance of its functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration. All established Board Committees should be required to have Committee Charters stating in plain terms their respective purposes, composition and structure, functions and responsibilities, reporting processes, resources and other relevant information. It should provide the standards for evaluating the performance of the Committees. The Charters or TORs should be publicly available and fully disclosed on the Company's website.

### 9.1. Audit and Related Party Transaction (RPT) Committee

The Board shall establish an Audit and RPT Committee to enhance its oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, related party transactions, and compliance with applicable laws and regulations. The Committee shall be composed of at least three (3) independent directors, at least one of whom should have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. The Chairman of the Audit Committee should not be the Chairman of the Board or of any other Committees.

The Audit & RPT Committee shall have the following duties and responsibilities, among others:

- a. Oversees senior management in establishing and maintaining an adequate, effective and efficient internal control framework, and ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets;
- b. Recommends the approval the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter;
- c. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the Company's internal control system, integrity of financial reporting, and security of physical and information assets;
- d. Oversees the Internal Audit Department and approves and recommends the appointment and removal and/or the grounds for the appointment and removal of the Head of Internal Audit. The Committee should also approve the terms and conditions for outsourcing internal audit services;
- e. Establishes and identifies the reporting line of the Head of Internal Audit to enable him to properly fulfill his duties and responsibilities. For this purpose, the Head of Internal Audit should directly report to the Audit Committee;
- f. Reviews and monitors Management's responsiveness to the Internal Audit's findings and recommendations;
- g. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope and expenses of the audit, and ensures the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

- h. Evaluates and determines the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the corporation's overall consultancy expenses. The Committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence. If allowed, the nature of the non-audit work and corresponding fees should be disclosed in the Company's Annual Report and Annual Corporate Governance Report;
- i. Reviews and approves the Interim and Annual Financial Statements before their submission to the Board, with particular focus on the following matters: i) Any change/s in accounting policies and practices; ii) areas where a significant amount of judgment has been exercised; iii) significant adjustments resulting from the audit; iv) going concern assumptions; v) compliance with accounting standards; vi) compliance with tax, legal and regulatory requirements;
- j. Reviews the disposition of the recommendations in the External Auditor's management letter;
- k. Performs oversight functions over the Company's Internal and External Auditors. It assesses and ensures the integrity and independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions. It shall review and monitor the Internal and External Auditors' independence and objectivity and the effectiveness of the audit process on an annual basis;
- l. Coordinates, monitors and facilitates compliance with laws, rules and regulations;
- m. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by IC and SEC, who undertakes an independent audit of the Company, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders; and
- n. Evaluates, on an ongoing basis, existing relations between and among businesses and counterparties;
- o. Ensures that all related parties are continuously identified, RPTs monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) captured;
- p. Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions;
- q. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest;
- r. Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;
- s. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and

- t. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

The Audit Committee should meet at least four (4) times a year, and is encouraged to separately meet with the Board, Internal Audit, and External Auditor on a regular basis (at least every quarter) without the presence of the CEO or other management team members.

## **9.2. Corporate Governance Committee**

The Board should establish a Corporate Governance Committee that should be tasked to assist the Board of Directors in the performance of its corporate governance, nomination and remuneration responsibilities. The Committee shall be composed of at least three (3) members of the Board of Directors, majority of whom shall be independent directors, including the Chairman.

The Committee shall have the following duties and functions, among others:

- a. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the corporation's size, complexity and business strategy, as well as its business and regulatory environments;
- b. Oversees the periodic performance evaluation of the Board, the directors, the Board Committees, and the Chairman, as well as executive management (e.g. CEO), and conducts an annual self-evaluation of its performance;
- c. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
- d. Recommends continuing education/training programs for directors, assignment of tasks/projects to Board Committees, succession plan for the Board members and senior officers, and remuneration packages for corporate and individual performance;
- e. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- f. Proposes and plans relevant trainings for the members of the Board;
- g. Determines the nomination and election process for the Company's directors and has the special duty of defining the general profile of board members that the Company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board;
- h. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the Company's culture and strategy as well as the business environment in which it operates;
- i. Determines the nomination and election process, criteria and qualifications of the members of the Board and other appointments that require Board approval. The Committee shall consider the competencies, skills, and experience that the Board, as a whole, should possess, and the knowledge, competencies, skills and experience of each current director. The Committee shall review with the Board, as necessary and appropriate, the requisite skills and criteria for Board members, as well as the composition and size of the Board as a whole in order to ensure that the Board has the requisite expertise, that its membership consists of

persons with sufficiently diverse and independent backgrounds and possesses a record of integrity and good repute, and that its membership consists of an appropriate mix of inside, outside, and independent directors;

- j. Identifies and recommends to the Board individuals qualified to become members of the Board, consistent with the criteria and qualifications approved by the Board or the Committee. The Committee shall be responsible for recommending to the Board the nominees for election as directors at any meeting of shareholders and the persons to be appointed by the Board to fill any vacancies on the Board. It shall always encourage shareholders' participation by accepting nominations from minority shareholders;
- k. Considers questions of independence and possible conflicts of interest of members of the Board and make recommendations regarding such matters to the Board, including the criteria for determining director independence;
- l. Establishes a formal and transparent procedure to develop a policy on remuneration of directors and senior officers, as required by the Board, to ensure that their compensation is consistent with Company's culture, strategy, as well as the business environment in which it operates;
- m. Recommends to the Board the form and amount of compensation to be paid by the Company to the directors for their services as members of the Board and Board Committees. The Committee shall review director compensation at least on an annual basis; and
- n. Reviews and approves the Company's compensation structure and incentive compensation programs and recommends changes in or additions to such structure and plans to the Board of Directors as needed.

### **9.3. Board Risk Committee**

The Board should establish a separate Board Risk Committee that should be responsible for the oversight of the Company's Enterprise Risk Management system to ensure its functionality and effectiveness. The Committee should be composed of five (5) members, majority of whom should be independent directors, including the Chairman. The Chairman should not be the Chairman of the Board or of any other Committee. At least one member of the Committee must have relevant thorough knowledge and experience on risk and risk management.

The Committee has the following duties and responsibilities, among others:

- a. Develops a formal enterprise risk management plan which contains the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;
- b. Oversees the implementation of the enterprise risk management plan through the Group Risk Management Committee, and conducts regular discussions on the Company's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;
- c. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness; revisits defined risk management strategies; looks for emerging or changing material exposures; and stays abreast of significant developments that seriously impact the likelihood of harm or loss;



- d. Advises the Board on its risk appetite levels and risk tolerance limits;
- e. at least annually the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the company;
- f. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the corporation and its stakeholders;
- g. Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management; and
- h. Reports to the Board on a regular basis, or as deemed necessary, the Company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

## 10. Board Remuneration

The Board recognizes the need for the Company to develop and disclose a remuneration policy statement covering board members and key executives. Thus, the level of remuneration shall be sufficient to attract and retain the quality of directors to run the Company successfully. The significant proportion of executive director's remuneration, on the other hand, is structured so as to link rewards to corporate and individual performance.

The levels of remuneration of non-executive directors shall reflect their experiences, responsibilities, and performance, and shall reflect the time commitment and responsibilities of the office or position. Remuneration for non-executive directors shall not include share options. If, options are granted, shareholders approval shall be sought in advance and any share acquired by way of an exercise of an option shall be held until at least one year after the non-executive director leaves the board. Holding of share options is relevant to determine the non-executive director's independence.

The performance-related elements of remuneration shall form a significant proportion of the total remuneration package of executive directors and shall be designed to align their interests with those of shareholders and to give these directors keen incentives to perform at the highest levels.

There shall be formal and transparent procedures for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.

Directors shall not participate in the determination of their own per diems or compensation, if any, and in no case shall the total yearly compensation of directors exceed ten (10) percent of the net income before income tax of the Company during the preceding year.<sup>4</sup> Since the Company is vested with public interest, it shall submit to its shareholders and the SEC, an annual report of the total compensation of each of their directors.

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<sup>4</sup> Section 29. Revised Corporation Code of the Philippines (R.A. No. 11232)

## 11. Annual Board Performance Evaluation and Shareholder's Feedback Mechanism

A formal and rigorous evaluation of the performance of the Board of Directors, the Board Committees, the Chairman of the Board, the CEO, and the individual directors shall be undertaken on an annual basis to serve as the best measure of their effectiveness. In conducting the evaluation, the Board shall be supported by the Corporate Secretary, but may also consider engaging the services of an external facilitator once every three (3) years.

The Board should have in place a system that provides, at a minimum, criteria and process to determine the performance of the Board, the Chairman, the CEO, the Board Committees and the individual directors, and such system should allow for a feedback mechanism from the shareholders. The Corporate Governance Committee shall oversee the evaluation process.

The Chairman of the Board 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.

The performance evaluation of the Board of Directors, its committee and its individual directors shall be conducted and reported in the Annual Report.

Further, the results of the annual performance evaluation of the Board, its committee, and individual directors shall be presented during the Annual Shareholders' Meeting to facilitate shareholders' feedback. Moreover, the Corporate Secretary as the Company's Shareholders (Investor) Relations Officer, shall provide accessible contact information through the company website for the shareholders to give their feedback anytime. The Corporate Secretary shall liaise between the shareholder and the relevant business units or the Board, as may be applicable, in order to provide appropriate resolution or action to the feedback from shareholder.

## 12. AIA Code of Conduct

The Board hereby adopts the AIA Group Code of Conduct, which provides the standards for professional and ethical behavior, as well as articulate acceptable conduct and practices which the Company should constantly adhere to. The Code shall apply and be properly disseminated to the Board, Senior Management, and all employees, including to the Company's business partners, including agents, contractors, sub-contractors, suppliers, distribution partners, and others who act on behalf of the Company.

The AIA Code of Conduct contains various policies such as, but not limited to anti-corruption policy, which endeavors to mitigate corrupt practices such as but not limited to bribery, fraud, extortion, collusion, conflict of interest and money laundering; and whistleblowing policies, that allows employees to freely communicate their concerns about illegal and unethical practices, with fully confidentiality and without fear of retaliation.

The Board shall ensure the proper and efficient implementation and monitoring of compliance with the AIA Code of Conduct and other internal policies of the Company.

## 13. Internal Control System and Enterprise Risk Management Framework

To ensure the integrity, transparency and proper governance in the conduct of its affairs, the Company should have a strong and effective internal control system and enterprise risk management framework, taking into account the size, risk profile, and complexity of operations of the Company.

### 13.1. Internal Audit

The Company therefore should have in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the Company's operations. The following shall be the functions of Internal Audit, among others:

- a. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in promoting the right values and ethics; ensuring effective performance management and accounting in the organization; communicating risk and control information; and coordinating the activities and information among the Board, external and internal auditors, and Management;
- b. Performs regular and special audit as contained in the annual audit plan and/or based on the Company's risk assessment;
- c. Performs consulting and advisory services related to governance and control as appropriate for the organization;
- d. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
- e. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the company;
- f. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- g. Evaluates specific operations at the request of the Board or Management, as appropriate; and
- h. Monitors and evaluates governance processes.

### 13.2. Head of Internal Audit

The Company shall have a Head of Internal Audit, appointed by the Board, who shall oversee and be responsible for the internal audit activity of the Company, and shall directly reports functionally to the Audit Committee and administratively to the CEO. The following are the responsibilities of the Head of Internal Audit, among others:

- a. Periodically reviews the Internal Audit Charter and presents it to senior management and the Board Audit and RPT Committee for approval;
- b. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;

- c. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
- d. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
- e. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
- f. Presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.

### **13.3. Risk Management**

Taking into account the size, risk profile and complexity of the Company's operations, the Company should also have a separate risk management function to identify, assess and monitor key risks. The function involves the following activities, among others:

- a. Defining a risk management strategy;
- b. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the Company's strategic objectives;
- c. Evaluating and categorizing each identified risk using the Company's predefined risk categories and parameters;
- d. Establishing a risk register with clearly defined, prioritized and residual risks;
- e. Developing a risk mitigation plan for the most important risks to the Company, as defined by the risk management strategy;
- f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Committee; and
- g. Monitoring and evaluating the effectiveness of the Company's risk management processes.

### **13.4. Chief Risk Officer**

In managing the Company's Risk Management System, the Company should have a Chief Risk Officer (CRO), who shall be the champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his responsibilities. The CRO shall have the following functions, among others:

1. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
2. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Committee;
3. Collaborates with the CEO in updating and making recommendations to the Board Risk Committee;
4. Suggests ERM policies and related guidance, as may be needed; and

5. Provides insights on the implementation of the risk management processes, the review of risk measures reported, and compliance with established risk policies and procedures

There should be clear communication between the Board Risk Committee and the CRO.

## 14. Disclosure and Transparency

The Company shall establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations, to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that would give a fair and complete picture of the Company's financial conditions, results and business operations.

The Company shall also fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualification and assess any potential conflicts of interest that might affect their judgement.

The Company shall likewise provide a clear disclosure of its policies and procedures for setting Board and executive remuneration in its Annual Corporate Governance Report.

The Company shall also disclose, as may be required by the Insurance Commission, its policies governing RPTs, as well as the material or significant RPTs reviewed and approved during the year in the Annual Corporate Governance Report.

All directors and officers are required to disclose and report to the Company any dealings in the Company's shares, if any.

The Company should make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, such as acquisition or disposal of significant assets that could adversely affect the viability or the interest of its shareholders and other stakeholders. In the case of acquisition or disposal of significant assets and the Company is the offeree-company, the Board should appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

To ensure the better protection of shareholders and other stakeholders' right, full disclosure of the Company's corporate governance policies, programs and procedures is imperative. Thus, this Manual, together with the other corporate governance policies, programs and procedures of the Company should be submitted to the regulators, when required, and posted on the Company's website.

## 15. Other Best Corporate Governance Practices

### 15.1. External Auditor's Independence and Audit Quality

The Company adopts the standards set by AIA for the appropriate selection of an External Auditor, and exercises effective oversight of the same, through the Audit Committee, to strengthen the external independence and enhance audit quality. The appointment, reappointment, removal and fees of the External Auditor shall be recommended by the Audit Committee, approved by the Board, and ratified by the shareholders. For removal of the External Auditor, the reasons for removal or change should be disclosed to the regulators and the public through the company website and required disclosures.

## **15.2. Non-Financial and Sustainability Reporting**

The Company adopts AIA's Policy on the disclosure of non-financial information, particularly on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability. The Company thus ensures that material and reportable non-financial and sustainability issues are disclosed in accordance with AIA Policy.

## **15.3. Communication Channels**

The Company shall have a comprehensive, effective and efficient communication channels, such as but not limited to, media (including social media) and analysts' briefings, to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders, investors, and all other stakeholders of the Company.

## **15.4. Corporate Social Responsibility**

The Company recognizes and places an importance on Corporate Social Responsibility. Thus, through various CSR activities, the Company ensures that it promotes a mutually beneficial relationship that allows it to grow its business, while contributing to the advancement of the society where it operates.

## **15.5. Promoting Shareholder Rights**

The Company undertakes to treat all its shareholders fairly and equitably, and to protect and facilitate the exercise of their rights. The Company shall thus make sure that the shareholders are duly informed of their rights and allowed to reasonably exercise the same. These rights include, among others, the following: right to receive dividends in an equitable and timely manner; pre-emptive rights; right to inspect corporate books; right to financial statements; right to participate in decisions concerning fundamental corporate changes; right to propose the holding of meetings and to include agenda items ahead of the scheduled annual and special shareholders' meetings; right to nominate candidates to the Board; and right to notice and to participate effectively in and vote in shareholder's meetings.

The Company shall encourage active shareholder participation by sending the Notice of Annual or Special Shareholders' Meeting with sufficient and relevant information at least 21 days before the scheduled meeting. The Notice may be sent to all shareholders of record through electronic mail or such other manner as the SEC or IC shall allow under its guidelines. The required information in the Notice shall include, among others, the date, location, meeting agenda and its rationale and explanation, the details of issues to be deliberated on and approved or ratified at the meeting, the proxy documents and such other information and documents as may be required by laws and the regulators to be included in the Notice.

To further encourage shareholder participation, the Company shall make the result of the votes taken during the most recent Annual or Special Shareholders' Meeting available to the shareholders the next working day after the conduct of such meeting, by emailing to them a copy of the minutes of the meeting. In addition, the minutes shall be submitted to the Insurance Commission within five (5) business days from the conduct of the meeting.

The Board should also make available, at the option of the shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner. Thus, through the Corporate Secretary, shareholders shall be properly informed of the Company's processes, procedures and remedies to address any infringement or violation of their rights. The Corporate Secretary, also acting as the Company's Investor Relations Officer, shall ensure constant shareholder engagement by receiving feedback, complaints, and queries from the shareholders, and ensuring that all necessary information regarding the annual or special stockholders' meeting and other important Company activities are properly and timely communicated to the shareholders.

## **15.6. Rights of Stakeholders**

The Company shall clearly identify its various stakeholders and promote cooperation with them in creating wealth, growth and sustainability. Thus, the Company shall make sure that the rights of these stakeholders established by law, by contractual relations and through voluntary commitments must be respected. The Company also adopts AIA's policies and programs that provide the necessary framework, mechanism and processes to ensure the fair treatment and better protection of its stakeholders' rights. To obtain redress for the violation of their rights, the concerned stakeholders can directly communicate with the Customer Relations Office of the Company.

## **15.7. Employee Participation**

The Board shall establish policies, programs and procedures that would encourage the employees of the Company to actively participate in the realization of the Company's goals and in its governance. These policies and programs may include, among others: 1) health, safety and welfare; 2) trainings and developments; and 3) reward/compensation.

## **15.8. Adoption and Disclosure Corporate Governance Policies**

The Company should ensure that it adopts, among others, and disclose clear policies on insider trading and abusive dealing; related party transaction and conflict of interest; customer welfare; supplier/contract selection; community interaction; anti-corruption; safeguarding creditors' rights; employee health safety and welfare;

## **15.9. Public Accountability**

As custodian of public funds, the Company and its intermediaries shall ensure that its dealings with the public are always conducted in a fair, honest, and equitable manner. Officers of the Company shall avoid conflicts of interest, and shall not engage in any unfair or deceptive acts or conduct that constitute unfair trade practices detrimental to policyholders and claimants

# **16. Others**

## **16.1 Remedies for Violation of the Policy and Procedure Manual**

All directors and officers shall abide by this policy. Existing disciplinary measures may be imposed upon such directors and officers who failed to comply with their obligations herein.

## **16.2 Policy Administration**

This Manual shall be administered by the Legal and Corporate Secretary's Office with the Board of Directors exercising oversight and guidance on how the provisions of this Manual shall be applied. This Manual shall be reviewed every three (3) years to ensure that it is aligned with the laws, rules and regulations of the regulators, and the best corporate governance practices.

MEDICard Philippines, Inc.

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**Corporate Governance Policy Manual**