

LIBERTY INSURANCE CORPORATION
MANUAL ON CORPORATE GOVERNANCE

(Revised in Compliance with Insurance Commission Circular Letter No. 2020-71)

The Board of Directors and Management of Liberty Insurance Corporation (the “Corporation”) hereby commit themselves to the principles and best practices contained in this Manual and acknowledge that the same may guide the attainment of their corporate goals.

OBJECTIVE

This Manual shall institutionalize the principles of good governance in the Corporation.

The Board of Directors and Management, employees, and shareholders believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

Definition of Terms.

Corporate Governance – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal, and social obligations toward their stakeholders.

Corporate governance 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 organization’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 Corporation, 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 Corporation.

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/her exercise of independent judgment in carrying out his/her responsibilities as a director.

Executive director – a director responsible for the day-to-day operations of a part or the whole of the organization.

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

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 an entity’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.¹

Related Party – shall cover the Corporation’s subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates, and special purpose entities), that the Corporation exerts direct or indirect control over or that exerts direct or indirect control over the Corporation; the Corporation’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 Corporation.

Related Party Transactions – a transfer of resources, services, or obligations between the Corporation and a related party, regardless of whether a price is charged. It shall be interpreted broadly to include transactions that are entered into with related parties and outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

Shareholder- refers to an owner of a share of stock in the Corporation.

Stakeholders – any individual, organization or society at large who can either affect and/or be affected by the Corporation’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.

I. BOARD’S GOVERNANCE RESPONSIBILITIES

1. Establishing a Competent Board

The Corporation shall be headed by a competent, working board to foster the long-term success of the Corporation and to sustain its competitiveness and profitability in

¹ Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework); Own Risk and Solvency Assessment (ORSA) Framework (IC-CL 2022-41 dated 25 August 2022)

a manner consistent with its corporate objectives and the long-term best interests of its shareholders and other stakeholders.

1.1. Composition of the Board of Directors

The Board shall be composed of at least five (5), but not more than eleven (11), members who are elected by the stockholders who shall discharge their duties for a term of one (1) year or until their successor shall have been elected and shall have qualified.

The Board shall be composed of directors with a collective working knowledge, experience, or expertise that is relevant to the Corporation's industry/sector. The Board shall always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

1.2. Non-Executive Directors

The Board shall be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.

1.3. Training

The Corporation shall provide an eight-hour orientation program for first-time directors covering IC-mandated topics on corporate governance and an introduction to the Corporation's business, Articles of Incorporation, and Code of Conduct.

The Corporation shall also provide a four-hour relevant annual continuing training for all directors aimed to promote effective board performance and continuing qualification of the directors in carrying out their duties and responsibilities. The topics will include corporate governance matters relevant to the Corporation, such as but not limited to emerging risks relevant to the Corporation, audit, internal controls, risk management, sustainability, and strategy.

1.4. Board Diversity

The Corporation believes in the principle of board diversity as a tool of corporate governance to achieve optimal decision-making. To respond to its current needs and evolving business environment and strategic direction, the Corporation shall endeavor to diversity the composition of its Board, which includes diversity on, among others, gender, age, ethnicity, culture, skills, competence and knowledge.

1.5. Corporate Secretary

The Board must be assisted by a Corporate Secretary who shall be a separate individual from the Compliance Officer. The Corporate Secretary shall not be a member of the Board of Directors and shall annually attend training on corporate governance. The Corporate Secretary shall be a citizen and a resident of the Philippines.

The Corporate Secretary is primarily responsible to the Corporation and its shareholders, and not to the Chairman or Chief Executive Officer of the Corporation and has, among others, the following duties and responsibilities:

- 1.5.1. 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;
- 1.5.2. Keeps abreast of 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;
- 1.5.3. 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;
- 1.5.4. Advises on the establishment of board committees and their terms of reference;
- 1.5.5. 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;
- 1.5.6. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family, and serious accidents, prevent him/her from doing so;
- 1.5.7. Performs required administrative functions;
- 1.5.8. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and
- 1.5.9. Performs such other duties and responsibilities as may be provided by the IC.

1.6. Compliance Officer

The Board shall appoint a Compliance Officer, with a position of adequate stature and authority in the Corporation. The Compliance Officer shall not be a member of the Board of Directors and shall annually attend training on corporate governance.

The Compliance Officer is a member of the Corporation's management team in charge of the compliance function and is primarily liable to the Corporation and its shareholders, and not to the Chairman or Chief Executive Officer of the Corporation. The Compliance Officer has, among others, the following duties and responsibilities:

- 1.6.1. Ensures proper onboarding of new directors (*i.e.*, orientation on the Corporation's business, charter, articles of incorporation, and by-laws, among others);
- 1.6.2. Monitors, reviews, evaluates, and ensures the compliance by the Corporation, its officers, and directors with the relevant laws, this Code, rules and regulations, and all governance issuances of regulatory agencies;
- 1.6.3. Reports the matter to the Board if violations are found and recommend the imposition of appropriate disciplinary action;
- 1.6.4. Ensures the integrity and accuracy of all documentary submissions to regulators;
- 1.6.5. Appears before the IC when summoned in relation to compliance with this Code;
- 1.6.6. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- 1.6.7. Identifies possible areas of compliance issues and works towards the resolution of the same;
- 1.6.8. Ensures the attendance of board members and key officers to relevant training; and
- 1.6.9. Performs such other duties and responsibilities as may be provided by the IC.

2. Establishing Clear Roles and Responsibilities of the Board

The fiduciary roles, responsibilities, and accountabilities of the Board as provided under the law, the Corporation's articles and by-laws, and other legal pronouncements and guidelines shall be clearly made known to all directors as well as to shareholders and other stakeholders.

2.1. Duties and Responsibilities

- 2.1.1. The Board members shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Corporation and all shareholders. There are two key elements of the fiduciary duty of board members: the duty of care and the duty of loyalty. The duty of care requires board members to act on a fully informed basis, in good faith, with due diligence and care. The duty of loyalty is also of central importance; the board member shall act in the interest of the Corporation and all its shareholders, and not those of the controlling Corporation of the group or any other stakeholder.
- 2.1.2. The Board shall oversee the development of and approve the Corporation's business objectives and strategy, and monitor their implementation, in order to sustain the Corporation's long-term viability and strength. The Board shall review and guide corporate strategy, major plans of action, risk management policies and procedures, annual budgets, and business plans; set performance objectives; monitor implementation and corporate performance; and oversee major capital expenditures, acquisitions, and divestitures.
- 2.1.3. The Board shall adopt an effective succession planning program for directors, key officers, and management to ensure growth and a continued increase in the shareholders' value. This shall include a policy on the retirement age for directors and key officers as part of management succession and to promote dynamism in the Corporation.
- 2.1.4. The Board shall align the remuneration of key officers and board members with the long-term interests of the Corporation. In doing so, it shall formulate and adopt a policy specifying the relationship between remuneration and performance, which includes specific financial and non-financial metrics to measure performance and set specific provisions for employees in control functions who have a significant influence on the overall risk profile of the Corporation. Further, no director shall participate in discussions or deliberations involving his/her own remuneration.

- 2.1.5. The Board shall have the overall responsibility of ensuring 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 shall include the appropriate review and approval of material or significant RPTs, which guarantee fairness and transparency of the transactions. The policy shall encompass all entities within the group, taking into account their size, structure, risk profile and complexity of operations.
- 2.1.6. The Board shall be primarily responsible to appoint a competent management team at all times. The Board shall 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 Chief Audit Executive).
- 2.1.7. The Board shall establish an effective performance management framework that will ensure the continuing fitness and propriety of Management, including the Chief Executive Officer, and personnel in carrying out their respective duties and responsibilities. This is to ensure that their performance is at par with the standards set by the Board and Senior Management.
- 2.1.8. The Board shall oversee that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, board members, and shareholders. The Board shall also approve the Internal Audit Charter.
- 2.1.9. The Board shall oversee that a sound enterprise risk management (ERM) framework is in place to effectively identify, monitor, assess and manage key business risks. The risk management framework shall guide the Board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.
- 2.1.10. The Board shall have a Board Charter that formalizes and clearly states its roles, responsibilities, and accountabilities in carrying out its fiduciary duties. The Board Charter shall serve as a guide to the directors in the performance of their functions and shall be publicly available and posted on the Corporation's website.

2.2. Chairman of the Board

The Board shall be headed by a competent and qualified Chairperson. The position of Chairman of the Board and Chief Executive Officer shall be held by

separate individuals and the division of responsibilities and accountabilities between the two shall be clearly defined and delineated.

The Chairman of the Board shall preside at all meetings of the stockholders and the Board of Directors.²

The duties and responsibilities of the Chairman include, among others, the following:

- 2.2.1. 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;
- 2.2.2. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- 2.2.3. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- 2.2.4. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- 2.2.5. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
- 2.2.6. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

2.3. Nomination and Election of Directors

- 2.3.1. Each stockholder entitled to vote may cast the votes to which the number of shares he owns entitles him, for as many persons as are to be elected as Directors or he/she may give to one candidate as many votes as the number of Directors to be elected multiplied by the number of his shares shall equal, or he/she may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected.³

² Section 2, Article V of the Amended By-Laws

³ Section 8, Article III of the Amended By-Laws

- 2.3.2. The Corporate Governance Committee shall ensure that the nominees possess the necessary qualifications and none of the disqualifications provided for by existing laws, rules & regulations, the Corporation's By-Laws, and this Manual. The qualifications and disqualifications shall be continuously monitored.
- 2.3.3. The election of the Directors shall be done by ballots⁴, or by viva voce if requested by a stockholder. The Chairman of the Board shall appoint two inspectors to supervise the elections of directors who shall hold office during the year following the date of their election.⁵
- 2.3.4. The Corporation may engage the services of professional search firms or external sources when searching for candidates to the Board.

2.4. Qualifications of Directors

A director of the Corporation must possess the following qualifications:

- 2.4.1. Ownership of at least ten (10) shares, which shall be registered in the books of the Corporation⁶;
- 2.4.2. College education or equivalent academic degree;
- 2.4.3. Practical understanding of the business of the Corporation;
- 2.4.4. Membership in good standing in relevant industry, business or professional organizations;
- 2.4.5. Previous business experience;
- 2.4.6. Possession of knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the entity's business and risk profile;
- 2.4.7. A record of integrity and good repute;
- 2.4.8. Sufficient time to carry out their responsibilities;
- 2.4.9. Has the ability to promote a smooth interaction between board members; and

⁴ *Id.*

⁵ *Id.*

⁶ Section 2, Article IV of the Amended By-Laws

2.4.10. Such other qualifications as may be required by existing laws, rules, regulations and those prescribed by the Board.

2.5. Permanent Disqualifications of Directors

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

- 2.5.1. Any person convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling, and theft;
- 2.5.2. Any person who has been convicted by final judgment of the court for violation of insurance laws;
- 2.5.3. Any person who has been judicially declared insolvent, spendthrift or unable to enter into a contract; or
- 2.5.4. Directors, officers or employees of closed insurance companies or any insurance intermediaries who were responsible for such institution's closure as determined by the IC; or
- 2.5.5. Other grounds as the IC may provide.

2.6. Temporary Disqualifications of Directors

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

The Board may provide for a temporary disqualification of a director based on any of the following grounds:

- 2.6.1. Any person who refuses 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 IC. This disqualification shall be in effect as long as the refusal persists;
- 2.6.2. Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both

regular and special of the Board of Directors during their incumbency, or any twelve (12)-month period during said incumbency. This disqualification applies for purposes of the succeeding elections;

- 2.6.3. Any person convicted for offenses involving dishonesty, breach of contract or violation of insurance laws but whose conviction has not yet become final and executory;
- 2.6.4. Directors and officers of closed insurance companies and insurance intermediaries pending clearance from the IC;
- 2.6.5. Directors who are 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 IC;
- 2.6.6. Directors who failed to attend the special seminar on corporate governance. This disqualification applies until the director concerned had attended such seminar;
- 2.6.7. Any person dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity;
- 2.6.8. Those under preventive suspension;
- 2.6.9. Persons with derogatory records with the NBI, court, police, Interpol, and insurance authorities of other countries (for foreign directors) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of an insurance director. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity;
- 2.6.10. Obligations shall include all borrowings from an insurance company or its related companies obtained by
 - 2.6.10.1.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;
 - 2.6.10.2.The spouse or child under the parental authority of the director or officer;

2.6.10.3. Any person whose borrowings or loan proceeds were credited to the amount of, or used for the benefit of a director or officer;

2.6.10.4. A partnership in 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

2.6.10.5. A corporation, association, or firm wholly owned or the majority of the capital is contributed by any or a group of persons mentioned in the foregoing items 1, 2, and 4.

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

3. Establishing Board Committees

Board committees shall be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration. The composition, functions, and responsibilities of all committees established shall take into consideration the Corporation's size, risk profile, and complexity of operations, among others. The respective charter of the committees shall be made publicly available.

3.1. Audit Committee

The Board shall establish an Audit Committee to enhance its oversight capability over the Corporation's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.

3.1.1. Composition

The Audit Committee shall be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom shall be independent. The Chairman of the Audit Committee shall also be independent and shall not be the chairman of the Board or of any other committees. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, and finance.

3.1.2. Duties and Responsibilities

The Audit Committee shall be primarily responsible for overseeing the senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. The Audit Committee shall ensure 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. It has the following duties and responsibilities, among others:

- 3.1.2.1. Recommends the approval of 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;
- 3.1.2.2. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the Corporation's internal control system, the integrity of financial reporting, and the security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances shall be in place in order to (a) safeguard the Corporation's resources and ensure their effective utilization, (b) prevent the occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the Corporation's financial data, and (d) ensure compliance with applicable laws and regulations;
- 3.1.2.3. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope, and expenses of the audit, and ensure the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- 3.1.2.4. 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 shall disallow any non-audit work that will conflict with his/her duties as an External Auditor or may pose a threat to his/her independence⁷. The non-audit work, if allowed, shall be disclosed in the Corporation's Annual Report and Annual Corporate Governance Report;

⁷ As defined under the Code of Ethics for Professional Accountants

- 3.1.2.5. Reviews and approves the Interim and Annual Financial Statements before their submission to the Board, with a particular focus on the following matters:
- Any change/s in accounting policies and practices
 - Areas where a significant amount of judgment has been exercised
 - Significant adjustments resulting from the audit
 - Going concern assumptions
 - Compliance with accounting standards
 - Compliance with tax, legal and regulatory requirements
- 3.1.2.6. Reviews the disposition of the recommendations in the External Auditor's management letter;
- 3.1.2.7. Performs oversight functions over the Corporation's Internal and External Auditors. It ensures the 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;
- 3.1.2.8. Coordinates, monitors and facilitates compliance with laws, rules and regulations;
- 3.1.2.9. Recommends to the Board the appointment, reappointment, removal, and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders;
- 3.1.2.10. Meet with the Board at least every quarter without the presence of the Chief Executive Officer or other management team members, and periodically meet with the head of the internal audit; and
- 3.1.2.11. Such other duties and responsibilities assigned to the committee by the Board.

3.2. Corporate Governance Committee

The Board shall establish a Corporate Governance Committee that shall assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to a Nomination and Remuneration Committee.

3.2.1. Composition

The Corporate Governance Committee shall be composed of at least three (3) appropriately qualified directors, the majority of whom shall be independent directors, including the Chairman.

3.2.2. Duties and Responsibilities

The Corporate Governance Committee shall be responsible for ensuring compliance with and proper observance of corporate governance principles and practices. It has the following duties and functions, among others:

- 3.2.2.1. 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;
- 3.2.2.2. Oversees the periodic performance evaluation of the Board and its committees as well as executive management, and conducts an annual self-evaluation of its performance;
- 3.2.2.3. 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;
- 3.2.2.4. 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;
- 3.2.2.5. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- 3.2.2.6. Proposes and plans relevant training for the members of the Board;
- 3.2.2.7. Determines the nomination and election process for the Corporation's directors and has the special duty of defining the general profile of board members that the Corporation may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and

3.2.2.8. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the Corporation's culture and strategy as well as the business environment in which it operates.

3.3. Other Committees

The Board may establish such other committees as it may deem fit, taking into careful consideration the Corporation's size, risk profile and complexity of operations, among other factors.

4. Fostering Commitment in the Board

The directors shall devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the Corporation's business.

- 4.1. The directors shall attend and actively participate in all meetings of the Board, Committees, and Shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission. The absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board during his/her incumbency is 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.
- 4.2. In Board and Committee meetings, the director shall review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.
- 4.3. The Board's non-executive directors shall concurrently serve as directors to a maximum of five (5) Insurance Commission Regulated Entities and Publicly Listed Companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the Corporation.
- 4.4. A director shall notify the Board where he/she is an incumbent director before accepting a directorship in another Corporation.

5. Reinforcing Board Independence

The board shall endeavor to exercise an objective and independent judgment on all corporate affairs

5.1. Independent Directors

The Board shall have at least two (2) Independent Directors or such Independent Directors as shall constitute at least twenty percent (20%) of the members of the Board of Directors, whichever is higher.

5.2. The Board shall ensure that its independent directors possess the necessary qualifications and none of the disqualifications for an independent director to hold the position. An Independent Director refers to a person who, ideally:

- 5.2.1.1. Is not or was not a regular director, officer or employee of the Corporation, its subsidiaries, affiliates or related companies during the past three (3) years counted from the date of his election/appointment, or has not been a senior officer or employee of the Corporation unless there has been a change in the controlling ownership of the Corporation;
- 5.2.1.2. Is not or was not a regular director, officer, or employee of the Corporation substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
- 5.2.1.3. Is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the Corporation, or in any of its related companies or of its majority corporate shareholders;
- 5.2.1.4. Is not a relative by affinity or consanguinity within the fourth (4th) degree of a director, officer, or stockholder holding shares of stock sufficient to elect one (1) seat in the board of the Corporation or any of its related companies or of any of its substantial stockholders;
- 5.2.1.5. Is not acting as a nominee or representative of any director or substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders;
- 5.2.1.6. Is not or was not retained as professional adviser, auditor, consultant, agent or counsel of the Corporation, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election/appointment;
- 5.2.1.7. Is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the Corporation or with any of its related companies or with any

of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;

- 5.2.1.8. Was not appointed in the Corporation, its subsidiaries, affiliates or related companies as Chairman "Emeritus", "Ex-Officio", Regular Directors, Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his election/appointment;
- 5.2.1.9. Is not affiliated with any non-profit organization that receives significant funding from the Corporation or any of its related companies or substantial shareholders; and,
- 5.2.1.10. Is not employed as an executive officer of another company where any of the Corporation's executives serve as regular directors.

Related company refers to (a) the Corporation's holding/parent company; (b) its subsidiary or affiliate; (c) subsidiaries of its holding/parent company; or (d) a corporation where the Corporation or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

5.3. Term of Independent Director

The Board's independent directors shall serve for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from reelection as such, but may continue to qualify for nomination and election as a non-independent director. In the event that the Corporation wants to retain an independent director who has served for nine years, the Board shall provide a meritorious justification to be submitted to the Insurance Commission and approved by the shareholders during the annual shareholders' meeting.

5.4. Chief Executive Officer

The position of Chairman of the Board and Chief Executive Officer shall be held by separate individuals and the division of responsibilities and accountabilities between the two shall be clearly defined and delineated.

The CEO has the following roles and responsibilities, among others:

- 5.4.1. Determines the Corporation's strategic direction and formulates and implements its strategic plan on the direction of the business;
- 5.4.2. Communicates and implements the Corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
- 5.4.3. Oversees the operations of the Corporation and manages human and financial resources in accordance with the strategic plan;
- 5.4.4. Has a good working knowledge of the Corporation's industry and market and keeps up-to-date with its core business purpose;
- 5.4.5. Directs, evaluates and guides the work of the key officers of the Corporation;
- 5.4.6. Manages the Corporation's resources prudently and ensures a proper balance of the same;
- 5.4.7. Provides the Board with timely information and interfaces between the Board and the employees;
- 5.4.8. Builds the corporate culture and motivates the employees of the Corporation; and
- 5.4.9. Serves as the link between internal operations and external stakeholders.

5.5. Lead Director

The Board may, whenever practicable, designate a lead director among the independent directors if the Chairman of the Board is not independent, including a situation where the positions of the Chairman of the Board and Chief Executive Officer are held by one person. The functions of the lead director include, among others, the following:

- 5.5.1. Serves as an intermediary between the Chairman and the other directors when necessary;
- 5.5.2. Convenes and chairs meetings of the non-executive directors; and
- 5.5.3. Contributes to the performance evaluation of the Chairman, as required

- 5.6. A director with a material interest in any transaction affecting the Corporation shall abstain from taking part in the deliberations for the same.
- 5.7. The non-executive directors (NEDs) shall have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the corporation. The meetings shall be chaired by the lead independent director.

6. Assessing Board Performance

The Board shall regularly carry out evaluations to appraise its performance as a body and assess whether it possesses the right mix of backgrounds and competencies.

- 6.1. The Board shall conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members, and committees. Every three years, the assessment may be supported by an external facilitator to increase objectivity.
- 6.2. The Board shall have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, committees and such system shall allow for a feedback mechanism from the shareholders.

7. Strengthening Board Ethics

- 7.1. The Board shall adopt a Code of Business Conduct and Ethics, which would provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Code shall be properly disseminated to the Board, senior management, and employees. It shall also be disclosed and made available to the public through the Corporation website.
- 7.2. The Board shall ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies through a communication and awareness campaign, continuous training to reinforce the code, strict monitoring and implementation, and setting in place proper avenues where issues may be raised and addressed without fear of retribution.

II. DISCLOSURE AND TRANSPARENCY

8. Enhancing Corporation Disclosure Policies and Procedures

The Corporation shall establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.

- 8.1. The Board shall establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that gives a fair and complete picture of a Corporation's financial condition, results and business operations.
- 8.2. All directors and officers shall disclose/report to the Corporation any dealings in the Corporation's shares within three (3) business days.
- 8.3. The Board shall fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.
- 8.4. The Corporation shall provide a clear disclosure of its policies and procedure for setting Board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report consistent with ASEAN Corporate Governance Scorecard (ACGS) and the Revised Corporation Code. The Corporation shall also disclose the remuneration on an individual basis, including termination and retirement provisions.
- 8.5. The Corporation shall disclose its policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions. The material or significant RPTs shall be reviewed and approved by the Board and submitted for confirmation by majority vote of the stockholders in the annual stockholders' meeting. All material or significant RPTs for the year shall be disclosed in its Annual Company Report or Annual Corporate Governance Report.
- 8.6. The Corporation's corporate governance policies, programs and procedures shall be appended to this Manual on Corporate Governance, which shall be submitted to the regulators and posted on the Corporation's website.

9. Strengthening the External Auditor's Independence and Improving Audit Quality

The Corporation shall establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.

- 9.1. The Audit Committee shall have a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. 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 shall be disclosed to the regulators and the public through the Corporation website and required disclosures.

9.2. The Audit Committee Charter shall include the Audit Committee's responsibility on assessing the integrity and independence of external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter shall also contain the Audit Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.

9.3. The Corporation shall disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest. The Audit Committee shall determine any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

10. Increasing Focus on Non-Financial Sustainability Reporting

The Corporation shall ensure that the material and reportable non-financial and sustainability issues are disclosed.

10.1. The Board shall have a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability. The Corporation shall adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

11. Promoting a Comprehensive and Cost-Efficient Access to Relevant Information

The Corporation shall maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. The Corporation shall include media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors. The Corporation shall have a website to ensure a comprehensive, cost efficient, transparent, and timely manner of disseminating relevant information to the public.

III. INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK

12. Strengthening the Internal Control System and Enterprise Risk Management Framework

The Corporation shall have a strong and effective internal control system and enterprise risk management framework to ensure the integrity, transparency and proper governance in the conduct of its affairs.

12.1. The Corporation shall have an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile and complexity of operations.

12.2. The Corporation shall 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 Corporation's operations. The internal audit activity may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third party service providers. The following are the functions of the internal audit, among others:

12.2.1. 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 (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;

12.2.2. Performs regular and special audit as contained in the annual audit plan and/or based on the Corporation's risk assessment;

12.2.3. Performs consulting and advisory services related to governance and control as appropriate for the organization;

12.2.4. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;

12.2.5. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the Corporation;

12.2.6. 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;

12.2.7. Evaluates specific operations at the request of the Board or Management, as appropriate; and

12.2.8. Monitors and evaluates governance processes.

The Corporation's internal audit activity may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third party service providers.

12.3. The Board may appoint a qualified Chief Audit Executive (CAE) subject to the Corporation's size, risk profile and complexity of operations. . The CAE shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel shall be assigned the responsibility for managing the fully outsourced internal audit activity. The following are the responsibilities of the CAE, among others:

12.3.1. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;

12.3.2. 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;

12.3.3. 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;

12.3.4. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;

12.3.5. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and

12.3.6. Presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.

12.4. Risk Management

The risk management function involves the following activities, among others:

- 12.4.1. Defining a risk management strategy;
 - 12.4.2. Identifying and analyzing key risks exposure relating to economic, environmental, social, and governance (EESG) factors and the achievement of the organization's strategic objectives;
 - 12.4.3. Evaluating and categorizing each identified risk using the Corporation's predefined risk categories and parameters;
 - 12.4.4. Establishing a risk register with clearly defined, prioritized and residual risks;
 - 12.4.5. Developing a risk mitigation plan for the most important risks to the Corporation, as defined by the risk management strategy;
 - 12.4.6. 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; and
 - 12.4.7. Monitoring and evaluating the effectiveness of the organization's risk management processes.
- 12.5. The Corporation may appoint a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities. The CRO has the following functions, among others:
- 12.5.1. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
 - 12.5.2. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board;
 - 12.5.3. Collaborates with the CEO in updating and making recommendations to the Board;
 - 12.5.4. Suggests ERM policies and related guidance, as may be needed; and
 - 12.5.5. Provides insights on the following:
 - Risk management processes are performing as intended;

- Risk measures reported are continuously reviewed by risk owners for effectiveness; and
- Established risk policies and procedures are being complied with

IV. CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS

13. Promoting Shareholder Rights

The Corporation shall treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.

13.1. It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights. Shareholders' rights relate to the following, among others:

13.1.1. Pre-emptive rights;

13.1.2. Dividend policies;

13.1.3. Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting;

13.1.4. Right to nominate candidates to the Board of Directors;

13.1.5. Nomination process; and

13.1.6. Voting procedures that would govern the Annual and Special Shareholders' Meeting.

13.2. The Board shall encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 28 days before the meeting.

13.3. The Board shall encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting shall be available on the Corporation website within five (5) business days from the end of the meeting.

13.4. The Board shall adopt a policy on alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner.

V. DUTIES TO STAKEHOLDERS

14. Respecting Rights of Stakeholders and Effective Redress for Violation of Stakeholders' Rights

The rights of stakeholders established by law, contractual relations, and voluntary commitments shall be respected. Where stakeholders' rights and/or interests are at stake, stakeholders shall have the opportunity to obtain prompt effective redress for the violation of their rights.

14.1. The Board shall identify the Corporation's various stakeholders and promote cooperation between them and the Corporation in creating wealth, growth, and sustainability.

14.2. The Board shall establish clear policies and programs to provide a mechanism for the fair treatment and protection of stakeholders.

14.3. The Board shall adopt a transparent framework and process that allow stakeholders to communicate with the Corporation and obtain redress for the violation of their rights.

15. Encouraging Employees' Participation

A mechanism for employee participation shall be developed to create a symbiotic environment, realize the Corporation's goals and participate in its corporate governance processes.

15.1. The Board shall establish policies, programs, and procedures that encourage employees to actively participate in the realization of the Corporation's goals and in its governance. The policies, programs and procedures may focus on, among others, the following: (1) health, safety, and welfare; (2) training and development; and (3) reward/compensation for employees.

15.2. The Board shall set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct. Further, the Board shall disseminate the policy and program to employees across the organization through training to embed them in the Corporation's culture.

15.3. The Board shall establish a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns.

16. Encouraging Sustainability and Social Responsibility

The Corporation shall be socially responsible in all its dealings with the communities where it operates. It shall ensure that its interactions serve its environment and

stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

The Corporation shall recognize and place importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the Corporation to grow its business, while contributing to the advancement of the society where it operates.

APPROVED by the Board of Directors during the Regular Meeting held on _____ at Makati City.

FERNANDO C. COJUANGCO
Chairman of the Board

ENRIQUE ROBERT C. REYES
Director

MARIA ELENA AQUINO-CRUZ
Director

JAIME C. LOPA
Director

L.I.A.A. COJUANGCO-BAUTISTA
Director

MARIA ERNESTINA C. TEOPACO
Director

RAMON V. OCAMPO
Director

LEONARDO GUISON III
Director

CAROL DAISY P. VELASCO
Director

JOSEFINA M. SALVADOR
Director

VIDA T. CHIONG
Director