



PHILIPPINES INTERNATIONAL LIFE INSURANCE CO., INC.

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Manual
on
CORPORATE GOVERNANCE

CODE OF CORPORATE GOVERNANCE

PHILIPPINES INTERNATIONAL LIFE INSURANCE CO., INC. **(PhilInterLife)**

A. INTRODUCTION

This manual and its provisions constitute the **CODE OF CORPORATE GOVERNANCE** of the **Philippines International Life Insurance Company, Incorporated**. We, who compose of the Board of Directors wherein the corporate powers of the corporation is exercised, its business affairs conducted and has control and supervision over all of its properties and the Management, which includes its Officers and Staff, hereby commit ourselves to the principles and best practices contained in this Manual, acknowledge with all candor that the same shall be our guide in the attainment of our Corporate goals.

B. OBJECTIVE

This Code of Corporate Governance manual aims to institutionalize the principles of good corporate governance and the entire organization of the Philippines International Life Insurance Co., Incorporated.

More importantly, this Code of Corporate Governance is hereby promulgated for adoption and compliance by the Philippines International Life Insurance Co., Inc., pursuant to the national policy to institute corporate governance reforms in order to achieve policyholder and market investor confidence; sustain the growth of the insurance industry, thereby contributing to the country's well being.

C. DEFINITIONS

1. **Corporate Governance** – refers to a system whereby shareholders, creditors and other stockholders of Corporation ensure that management enhances the value of the corporation as it competes in an increasingly global market place.
2. **Corporation** – *as referred to in this manual is Philippines International Life Insurance Co., Inc.*
3. **Board of Directors** – refers to the collegial body that exercises the corporate powers of the Corporation, which was formed under the Corporation Code. It conducts all business and controls or holds all properties of the Corporation.
4. **Independent Director** – refers to a person other than an officer or employees of the Corporation or any other individual having any relationship with the Corporation,

which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he should be independent and free from any business or other relationship, which could materially interfere with the exercise of his independent judgment. An independent director is not an officer or employee of the Corporation and does not provide services and receives no significant income for other professional services to the Corporation

5. **Management** – refers to the body given the authority to implement the policies determined by the Board in directing the course/business activity/ies of the corporation.
6. **Executive Director** – refers to a director of the Corporation who is at the same time appointed to head a department/unit within the corporate organization.
7. **Non-Executive Director** – refers to a Board Member of the Corporation with non-executive functions.
8. **Internal Control** – refers to the process effected by the Board of Directors, Management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operation, the reliability of financial reporting, and compliance with applicable laws, regulations, and internal policies.
9. **Independence** – refers to the environment, which allows the person to carry out his/her work at the Corporation freely and objectively.
10. **Objectivity** – refers to unbiased mental attitude that requires the person to carry out his/her work at the Corporation in such manner that he/she has an honest belief in his/her work product and that no significant quality compromises are made. Objectivity requires the person not to subordinate his/her judgment to that of others.
11. **Stakeholders** – refer to the group of owners, officers and employees, policyholders, suppliers, creditors and the community.
12. **Substantial or major shareholder** – shall mean a person, whether natural or juridical, owning such number of shares that will allow him to elect at least one (1) member of the board of directors of the Corporation or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.
13. **Related interests** – shall mean individuals related to each other within the fourth consanguinity or affinity, legitimate or common law, and two or more company

owned or controlled by a single individual or by the same family group or the same group of persons.

D. COMPLIANCE SYSTEM

1. Compliance Officer

1.1 To ensure faithful adherence to the corporate principles and best practices mentioned earlier, the Chairman of the Board shall designate a Compliance Officer. The said compliance officer shall be given primarily charge of direct reporting responsibilities to the Chairman of the Board/Governance Committee. The Compliance Officer shall perform the following duties:

- Monitor compliance with the provisions and requirements of this Code of Corporate Governance Manual;
- Appear before, government agencies, if necessary
- Determine violation/s of this Manual, and thereafter recommend penalty/ies for violation thereof subject to further review and approval of the Board of Directors;
- Must identify, monitor and control compliance risks.
- Must prepare annually and submit to the accredited Corporate Governance Assessment Institution by the Office of the Insurance Commission (IC) the Corporate Governance Scorecard compliance as required by the Code of Corporate Governance before deadline set by IC.

2. Board of Directors

2.1 General Responsibility

- Compliance with the principles of good corporate governance shall start with the Board.
- It shall be the paramount responsibility of the Board to foster the long-term success of the Corporation and to secure its sustained competitiveness in a manner always consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, its shareholders and other stakeholders. Furthermore, the Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

2.2 Composition of the Board

- The Board shall be composed of at least five (5) but not more than fifteen (15) members elected by the shareholders. At present there are eleven (11) members of the Board.
- The Board shall include a balance of executive and non-executive directors, including independent non-executive directors having a clear division of responsibilities such that no individual or small group of individuals can dominate the Board's decision-making.
- The non-executive directors shall be of sufficient qualifications, stature and number to carry significant weight in the Board's decisions. Non-executive directors considered by the Board to be independent shall be identified in the Annual Report.

2.3 Qualifications and Age Limit

- Directors sitting on the Board shall be possessed of the necessary skills, competence and experience, in terms of management capabilities, and preferably in the field of insurance or insurance-related disciplines. In view of the fiduciary nature of insurance obligations, directors shall also be persons of integrity and credibility.
- The Board may require that directors shall own more than the qualifying common share in the corporation.
- The Board shall establish a fixed retirement policy for directors.
- Holder of at least one (1) share of stock of the Corporation;
- Shall be at least twenty-one (21) years old;

2.4 Disqualifications

2.4.1 Permanent Disqualifications - Directors/officers/employees permanently disqualified from holding a director position:

- Persons who have been convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft;

- Persons who have been convicted by final judgment of the court for violations of insurance laws;
- Persons who have been judicially declared insolvent, spendthrift or unable to enter into a contract; or
- Directors, officers or employees of closed insurance companies or any insurance intermediaries who are responsible for such institution's closure as determined by the Insurance Commission.

2.4.2 Temporary Disqualification - Directors/officers/employees disqualified from holding a director position for a specific/indefinite period of time:

- 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. This disqualification shall be in effect as long as the refusal persists;
- In absence 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;
- Convicted for offenses involving dishonesty, breach of contract or violation of insurance laws but whose conviction has not yet become final and executory;
- Disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification by the Insurance Commission
- Dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity;
- Those under preventive suspension;

2.5 Election - The Corporation's stockholders shall elect the Board of Directors.

2.5.1 It is the Stockholders' responsibility except proxy to nominate directors. The Stockholders shall nominate a slate, which shall include at least two members who has experience in insurance or insurance – related disciplines, and

other individuals with diverse talents, backgrounds and perspectives, and who can work effectively as a team, with each able and willing to add value and contribute meaningfully to board decisions.

2.5.2 The Board shall represent all shareholders and shall be in a position to participate independently and objectively.

2.6 Orientations and Training

2.6.1 The Corporation shall provide for an adequate orientation process for new directors.

2.6.2 The Board shall assess the adequacy of director development and education for individual directors and for the Board as a team.

3. Chairman and CEO

Considering that the insurance business is imbued with the public interest, the roles of Chairman and Chief Executive Officer shall as a general rule not be combine to ensure a balance of power and authority such that no one person has unfettered decision-making powers. Accordingly, the Chairman of the Board should be a non-executive director.

4. Multiple Board Seats

The Board shall consider guidelines on the number of directorships for its members. Such guidelines shall be subject to exceptions in a few cases. In general, however, the CEO and other executive directors shall submit themselves to a low indicative limit (four or lower) on membership in other corporate boards. The same low limit shall apply to non-executive directors who serve as full-time executives in other corporations. There can be a higher indicative limit (five or lower) for other directors who hold non-executive positions in any corporation.

5. Independence of Directors

5.1 The Corporation shall ensure that majority of the directors are independent of management

5.2 An Independent Director shall be one who is not an officer or employee of the Corporation.

5.3 Does not provide services, and receives no significant income for other professional services to the Corporation.

5.5 The Board shall disclose any relationship that can compromise a director's independence.

6. Responsibilities of the Board

- 6.1 Approving corporate philosophy and mission.
- 6.2 Reviewing and approving the management's strategic and business plans.
- 6.3 Reviewing and approving the Corporation's financial objectives, plans and actions.
- 6.4 Overseeing the conduct of business of the Corporation to ensure proper management and fair and equitable dealings with the policyholders, claimants and creditors.
- 6.5 Identifying key business risks, establishing operational risk-taking limits commensurate with the financial capacity and technical capabilities for the Corporation's core activities, especially underwriting, reinsurance and investment, taking into consideration the pertinent provisions of the Insurance Code, and ensuring the implementation of appropriate system to manage risks within said limits.
- 6.6 Approving corporate policies on major areas of operations, including underwriting, investments, reinsurance and claims management.
- 6.7 Monitoring Corporation's performance against the strategic and business plans.
- 6.8 Reviewing performance of Corporation's senior management, and successions planning including the replacement, appointment, training and remuneration of senior executive officers.
- 6.9 Ensuring the adequacy and effectiveness of internal control and management information systems and compliance with the applicable laws, rules and regulations and the Corporation's own Articles of Incorporation and By-laws.
- 6.10 Assessing its own effectiveness in fulfilling its responsibilities.
- 6.11 Performing other functions prescribed by law or assigned to the Board in the corporation's articles of incorporation and by-laws.
- 6.12 In sum, fostering the long-term success of the Corporation in a manner consistent with the fiduciary responsibility, which it exercises in the best interest of the corporation and its shareholders.

7. Duties of the Board

- 7.1 Review and adopt a strategic plan for the Corporation.
- 7.2 Oversee the conduct of the Corporation's business to ensure that the business is being properly managed and dealings with policyholders, claimants and creditors are fair and equitable.
- 7.3 Approve corporate policies in core areas or operations, specifically underwriting, investments, reinsurance and claims management.
- 7.4 Select and appoint officers who are qualified to administer insurance affairs soundly and effectively and to establish an adequate selection process for all personnel.
- 7.5 Apply fit and proper standards on personnel. It must have integrity, technical expertise and experience in the institutions business, either current or planned, which should be the key considerations in the selection process.
- 7.6 Establish an appropriate compensation package for all personnel that are consistent with the interest of all its stakeholders.
- 7.7 Have an appropriate reporting system so that the Board can monitor, assess and control the performance of Management.
- 7.8 Present to all its members and shareholders a balanced and understandable assessment of the Corporation's performance and financial condition.
- 7.9 Appoint a Compliance Officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.
- 7.10 Entitled to the services of a Corporate Secretary who must ensure that all appointments are properly made, that all necessary information are obtained from directors, both for the Corporation's own records and for the purposes of meeting obligations, as well as obligations arising from the requirements of the Insurance Commission and other regulatory agencies.
- 7.11 Act judiciously and observe confidentiality.

8. Board Authority

The Board shall formally establish and adopt a schedule of matters and authorized to reserve special matters for its decision as a safeguard against the risk of misjudgment or deliberate illegal or irregular practices.

- Acquisitions and disposal of assets of the Corporation or of its subsidiaries that are material in nature;
- Related party transactions of a material in nature;
- Authority levels for core functions of the Corporation;
- Organizational structure, job description and authority limits for the President, including any changes thereto;
- Corporate policies on investment; and
- Outsourcing of core business functions.

9. Board Committees

To aid in complying with principles of good Corporate Governance, the Board shall constitute Committees:

9.1 Executive Committee – that can act in behalf of the full Board on matters defined by the Board, and submitted by the Management for action, when the Board cannot meet.

- Duties of the Executive Committee.
 1. The Committee shall exercise any of the powers and attributes, allowable by law, of the Board of Directors during the intervening period between the Board meetings.
 2. Shall report all resolutions adopted by it to the Board of Directors at the first meeting that the latter may subsequently hold.
 3. The Chairman of the Executive Committee shall have the following powers;
 - 3.1 Execute the resolutions of general meetings of the members, the Board and of the executive committee.
 - 3.2 Sign, in accordance with said resolution, such contracts, instruments and powers of attorney as may be necessary.
 - 3.3 Represent the Corporation and vote at stockholders' meetings all stocks owned by the Corporation in other corporations or companies.
 - 3.4 Appoint and discharge employees occupying the positions authorized by the Board or by the Executive Committee.
 - 3.5 With the consent of the Board, the Chairman of the Executive Committee may delegate to any of the officers of the Corporation any and all powers granted him, provided, however, that such

delegation shall not divest the Chairman of the authority to exercise the same powers.

9.2 Audit Committee – which shall also be made up of one independent director and two Board members. It's main responsibilities include: recommend the appointment of external auditors, whose report they review, monitor the system of internal controls and corporate compliance with laws, regulations and code of ethics serve as direct channel of communication to the Board for the internal auditors, compliance officers, and the general.

- Duties of the Audit Committee.
 1. Reviews and recommends to the Board, the Corporations Annual Budget.
 2. Provides oversight on the implementation of the Corporation's internal and external audit programs.
 3. Reviews and evaluates the experience and qualifications of the internal and external auditors.
 4. Provide oversight over the senior management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation. These functions shall include receiving from senior management, periodic information on risk exposures and risks management objective.
 5. Provide oversight on the risk management policies of the Corporation.
 6. Review and approves audit scope and frequency, and the annual internal audit plans.
 7. Recommend to the Board the selection of the external auditor.
 8. Ensures that the accounting and auditing processes are aligned with international standards and practices.
 9. Monitors and evaluates the adequacy and effectiveness of the Corporation's internal control system annually.
 10. Receives and reviews report of internal and external auditors and advises the Board on the same and ensure that management is taking appropriate corrective actions, if applicable, in a timely manner.
 11. Oversees the implementation or related party transactions policy as provided by the law and in the Corporation's By-laws, Manual on Corporate Governance and Code of Conduct.

12. Reviews, monitors and evaluates annually the implementation of Investment Policy and Investment Strategy of the Corporation.
13. Reviews the Corporation's compliance with laws and regulations pertaining to Finance and Investment matters.

9.3 Governance Committee – which shall be made up of at least two Independent Directors and one Board member. It is charged with responsibility of advising the Board on corporate governance matters.

- Duties of the Governance Committee.
 1. Shapes the policy on the size and composition of the Board as well as its internal functioning.
 2. Monitors and evaluates performance of the Board and the various Board committees.
 3. Initiates the conduct of review of all the relevant policies and processes of the Corporation to comply with the requirements of the Code of Corporate Governance Principles and Leading Practices.
 4. A formal and rigorous annual evaluation of the Board's own performances and that of its committees and individual shall be undertaken.
 5. The Chairman shall act on the results of the performance evaluation by recognizing the strengths and addressing the weakness of each director. He may propose appointment of new members to the Board or seek the resignation of directors.
 6. Performance evaluation of the Board, its committees and its individual directors shall be conducted and reported in the annual report.
 7. Performance evaluation of the Chairman shall be made by non-executive directors, led by the senior independent director, taking into account the views of executive directors.
 8. Ensures the implementation of the Manual on Corporate Governance.

a.) Nomination Committee

- a.1. Shall be composed of at least three (3) members of the Board, one of whom must be independent

a.2. Shall pre-screen and shortlists all candidates nominates to become a member of the Board of Directors, keeping in mind the qualifications and disqualifications requirements and the number of directorship to the Board as prescribed by the Insurance Commission and Corporation's By-Laws.

a.3 Ensures that appointments are made on merit. Thorough deliberation and consideration must be made.

a.4 Shall review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.

a.5 Prepare a description of the roles and capabilities required of a particular appointment.

c.) Remuneration Committee

c.1. Shall be composed of at least three (3) members of the Board, one of whom must be independent

c.2 Compensation or Remuneration Committee is composed of at least three (3) members, one of whom is an independent director.

c.3 It shall judge or make plans where to position the Corporation relative to other companies. But such comparisons shall be used with caution in view of the risk of an upward ratchet of the level of remuneration with no corresponding improvement in performance.

c.4 It shall delegate responsibilities for setting up remunerations for all executive directors and chairman, including pension rights or any compensation payments.

c.5 It shall also recommend and monitor the level and structure of salaries including remunerations for senior management. The definition of senior management for this purpose shall be determined by the Board but would normally include first level management below Board level.

10. Corporate Independence

10.1 Group Structure

a. Corporate independence shall as much as possible be maintained so as not to compromise the interests of policyholders, claimants, creditors and minority

shareholders. Controlling or substantial interests shall be disclosed to the Board, and the latter shall ensure compliance with the provisions of Title 20 Chapter III of the Insurance Code on Holding Companies.

b. Overlapping interests in the insurance entity shall be disclosed to the Board and any material transaction involving such interests shall be similarly disclosed.

10.2 Related-Party Transactions

a. Related-party transactions shall be conducted on terms that are at least comparable to the normal commercial terms in order to safeguard the best interests of the Corporation and its policyholders, creditors and claimants. In all cases, the provisions of Title 20, Chapter III of the Insurance Code shall be complied with.

b. Related-party transactions shall be disclosed fully to the Board. Prior Board approval shall be obtained for related-party transactions that are material in nature.

11. Board Meetings

a. The Board shall meet as frequently as needed in order for directors to discharge their responsibilities properly. The Board shall meet from 4 to 12 times a year including special or emergency meeting as may need arises.

b. The Board shall have the duty of rigorously preparing for board meetings, giving undivided attentions and actively participating in meetings.

12. Board Remuneration

12.1 Level of Remuneration

- The Board and its compensation committee shall set compensation levels adequate to attract and retain qualified directors.
- Compensation for directors shall be competitive and take into account the duties and other commitments imposed upon them.

12.2 Composition of Remuneration

- The Board shall pay the directors solely in the form of cash.

13. Financial Reporting Transparency and Internal Control

13.1 Financial Reporting

- The Board shall ensure timely and accurate disclosure on all material matters, including the financial condition, performance, ownership and governance of the corporation.
- Fair, timely and cost-efficient access to relevant information shall be provided for all parties with a legitimate interest in the Corporation. Key financial information should be readily and easily accessible to shareholders, policyholders, creditors and claimants.
- The Board and Senior management shall receive regular reports on all key aspects of the operations of the Corporation, which shall include an analysis of premium growth, underwriting performance, investment results, claims management and credit control, to provide a sound basis for assessing financial performance and condition, identifying real and potential problems and formulating appropriate policies and strategies.
- The Board shall ensure faithful compliance with the financial and other reportorial requirements under the Insurance Code.

13.2 Transparency

- Disclosure shall include material information on the financial and operating results of the corporation.
- It shall also include any material foreseeable risks for the Corporation.
- All transactions of the Corporation, whether policy related or otherwise are disclosed to the Board. Likewise, related party transactions are disclosed fully to the Board and prior approval shall be obtained for such that are material in nature.
- The Corporation shall in its annual report include a statement for how the Board operates, type of decisions to be followed by the board and those that are to be delegated to the management.

13.3 Internal Control

- The Corporation shall assure that an effective system of controls is in place for safeguarding the corporation's assets.

- Major risk facing the Corporation which are likely to affect the performance and financial condition of the corporation (including underwriting risk) and the approach taken by the management in dealing with these risks, shall be reported to the Board to enable the latter to effectively address said risks.
- The Board shall ensure that reports accurately reflect the financial condition of the corporation and the result of corporate operations.
- The Board shall regularly review the system for securing adherence to key internal policies as well as to significant laws and regulations that apply it. An effective and comprehensive internal audit of the corporation shall be carried out operationally by an independent and competent staff, and audit findings and recommendations reported to the Board and the senior management of the corporation.
- One of the most important missions of the Board is to protect shareholder value through adequate financial controls. The Board shall foster and encourage a corporate environment of strong internal control, fiscal accountability, high ethical standards and compliance with the law and code of conduct.

14. Public Accountability

14.1 As custodian of public funds, the Corporation shall ensure that its dealings with the public are always conducted fair, honest and equitable manner. Accordingly, officers of Corporation shall avoid conflicts of interests and not engage in any unfair or deceptive acts or conduct that constitute unfair trade practices to the detriment of policyholders and claimants, including but not limited to:

- Misrepresentations through false, deceptive or misleading statements, which include misrepresentations as to terms and benefits of insurance policies; the financial condition of the corporation and information about competitors for the purpose of inducing a policyholder to lapse, forfeit or surrender the policy.
- Entering into committing or performing as a general business practice unfair claims settlement practices as defined in Section 211 of the Insurance Code.
- Knowingly committing or performing as a general business practice unfair claims settlement practices as defined in Section 241 of the Insurance Code.

15. Reportorial System

In compliance with the requirements of the Code of Corporate Governance Principles and Leading Practices as issued by the Insurance Commission, and consistent with a disclosure base approach to implementation and enforcement, the Corporation shall make a general disclosure of its corporate governance practices briefly describing the manner in which the various issues enumerated above have been addressed particularly the following:

- Board Composition
- Management Accountability
- Corporate independence
- Internal Control and Operational Risk Management
- Public Accountability
- Financial Reporting

16. Communication Process

16.1 This Manual shall be available for inspection by any stakeholder of the Corporation at any hours of the day through the official website of the Corporation.

16.2 All Directors, officers, division, department and staff heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

17. Monitoring, Assessment and Penalties

17.1 The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalties indicated herein.

a. To strictly observe and implement the provision of this Manual, the following penalties shall be imposed.

- The subject person shall be reprimanded on first violation.
- Suspension from office on second violation. The duration of the suspension shall depend on the gravity of the violation.
- Maximum penalty of removal from office on third violation.

b. The commission of a third violation of this Manual by any member of the Board of Directors of the Corporation or its subsidiaries and affiliates shall be sufficient cause for removal from Board membership.

c. The Compliance officer shall be responsible for determining violations through notice and hearing and shall be recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

17.2 This Manual shall be subject to an annual review unless the same is amended by the Board.

17.3 All business processes and practices being performed within any department or business unit of the Corporation that are not consistent with any portion of this Manual shall be revoked unless upgraded to the compliant extent.

18. Responsibility for Good Governance

Good Corporate Governance is the responsibility and concern, not only of the Board of Directors and Management, but also of each and every employee of the corporation. The Board of Directors shall see to it that a system of rules and regulations is in place defining the duties and responsibilities of each and every officer and employee to accomplish this objective.

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