

B. The Board of Directors

b.1. Composition and Board Size

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

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

b.2. Chairman and CEO

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

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

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

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

b.3. Qualifications and Disqualifications of a Director

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b.4. Independent Director

A person, who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director. He must possess all the qualifications required and none of the

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

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

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

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

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

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

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

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

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

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

b.6. Board Authority, Duties and Functions

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

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

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

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

b.7. Specific Duties and Responsibilities of a Director

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

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

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

b.8. Board Meetings

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

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

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

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

b.9. Board and Officers' Remuneration

Level of Remuneration

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

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

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

b.10. Board Committees

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

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

1. AUDIT COMMITTEE

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

The Audit Committee shall have the following functions:

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

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

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

2. NOMINATION COMMITTEE

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

3. COMPENSATION COMMITTEE

The Compensation Committee may be composed of at least three (3) members, one of whom shall be an independent director. It may establish formal and transparent procedure for developing a policy on executive remuneration, and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel.

4. RISK OVERSIGHT COMMITTEE

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

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

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

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