

**MANUAL ON
CORPORATE GOVERNANCE**

**PHILIPPINE LIFE FINANCIAL
ASSURANCE CORPORATION**

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Philippine Life Financial Assurance Corporation

The stockholders, directors, management, and other stakeholders of Philippine Life Financial Assurance Corporation, hereby commit themselves to the principles and best practices contained in this Manual, and acknowledge that these principles are an indispensable guide towards the attainment of our corporate goals.

1 OBJECTIVE

This Manual shall institutionalize the principles of good corporate governance in the entire organization.

The stockholders, directors, management, and other stakeholders believe that corporate governance is a necessary component of sound strategic business management. Every effort will be made to create an awareness throughout the organization, of corporate governance: those relationships between the Company's management, its board, its shareholders and other stakeholders that will provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders.

2 COMPLIANCE SYSTEM

2.1. Compliance Officer

2.1.1. To insure adherence to corporate principles and best practices, the Chairman of the Board shall designate a Compliance Officer who shall hold the rank no lower than Vice President or its equivalent. He shall have direct reporting responsibilities to the Chairman of the Board.

2.1.2. He shall perform the following duties:

- Monitor compliance with the provisions and requirements of this Manual;
- Appear before the Securities and Exchange Commission upon summon on similar matters that need to be clarified by the same;
- Determine violation/s of the Manual and recommend penalty for violation thereof for further review and approval of the Board;
- Issue a certification every January 30th of the year on the extent of the Corporation's compliance with this Manual for the completed year, explaining the reason/s of the letter's deviation;
- Identify, monitor, and control compliance risks.

2.1.3. The appointment of the compliance officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form

17-C. All correspondence relative to his functions as such shall be addressed to said Officer.

2.2. Plan of Compliance

2.2.1. Board of Directors

Compliance with principles of good corporate governance shall start with the Board of Directors. The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, the board's accountability to the Corporation and the shareholders.

It shall be the Board's responsibility to foster the long-term success of the Corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

2.2.1.1 General Responsibility

A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability and fairness. He shall act on a fully-informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. Moreover, the Board should ensure compliance with applicable law and take into account the interests of stakeholders.

2.2.1.2 Duties and Functions

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

- Play an active role in selecting, compensating, monitoring and when necessary, replacing key executives and overseeing succession planning.
- Review key executive and board remuneration, and ensuring a formal and transparent board nomination process that ensures a mix of competent directors and officers.
- Review and guide corporate strategy, major plans of action, risk policy, annual budgets and business plans; set performance objectives, monitor implementation and corporate performance; and oversee major capital expenditures, acquisitions and divestitures, in line with the Corporation's determined purpose, its vision and mission.
- Ensure the integrity of the Corporation's accounting and financial reporting systems, including the independent audit,

and that appropriate systems of control; are in the place, in particular, financial control, and systems for monitoring risk and the Corporation's compliance with all relevant laws, regulations and codes of best business practices;

- Identify the Corporation's major and other stakeholders and formulate and oversee a clear policy and process of disclosure and communication with all of them;
- Adopt a system of internal checks and balances, particularly one that enables effective monitoring and management of potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions;
- Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- Monitor the effectiveness of the governance practices under which it operates and making changes as needed;
- Property discharged Board functions by meeting regularly. The "proper discharge of Board functions" is hereby understood to include the ability to exercise objective judgment on corporate affairs independent, in particular, from management. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted; and
- Keep Board authority within the power of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulation.

2.2.1.3 Specific Duties and Responsibilities of a Director

A director shall have the following duties and responsibilities:

- To ensure fairness in the conduct of all business transactions with the Corporation and to ensure that his own personal interests do not bias his Board decisions;
- To devote time and attention necessary to properly discharge his duties and responsibilities to the Corporation;
- To act judiciously;
- To exercise independent judgment;
- To have a 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 Securities and Exchange Commission, and where applicable, the requirements of other regulatory agencies.

- To observe confidentiality;
- To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.

2.2.2. Board Committees

To aid in complying with the principles of good corporate governance, the Board shall constitute the following Committees.

2.2.2.1 Nomination Committee

The Board shall create a Nomination Committee which shall have at least three (3) voting (one of whom must be independent¹) and one (1) non-voting Director in the person of the Human Resources Director /Manager.

2.2.2.1.1 It shall pre-screen and shortlist all candidates nominated to become a member of the board of directors in accordance with the following qualifications and disqualifications:

Qualifications

- Holder of at least one (1) share of stock of the Corporation;
- He shall be at least a college graduate or have sufficient experience in managing the business to substitute for such formal education;
- He shall be at least twenty one (21) years old;
- He shall have proven to possess integrity and probity; and
- He shall be diligent.

Disqualifications

- Any person finally convicted judicially of an offense involving moral turpitude or fraudulent act or transgressions;
- Any person finally found by the Commission or court or other administrative body to have willfully violated, or willfully aided,

¹** An independent non-executive director: (a) has never been an employee of the company or its subsidiaries; (b) is not a relative of any employee in the company (c) provides no services to the company other than his non-executive position; (d) is not employed by any firm providing major services to the company; & (e) receives no compensation from the company other than director fees or stock options.

abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas.

- Any person judicially declared to be insolvent;
- Any person finally found guilty by a foreign court or equivalent financial regulatory authority acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and
- Conviction by final judgment of an offense punishable by imprisonment for a period exceeding 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:

- Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualifications shall be in effect as long as his refusal persists;
- Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all meetings, both regular and special, of the Board of directors during his incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding election;
- Dismissal/ termination from directorship in another listed corporation for cause. This disqualifications shall be in effect until he has cleared himself of any involvement in the alleged irregularity;
- Being under preventive suspension by the Corporation;
- If the independent director becomes an officer or employee of the same corporation he shall be automatically disqualified from being an independent director;
- Conviction that has not yet become final referred to in the grounds for the disqualifications of directors.

2.2.2.1.2 In consultation with the executive or management committee/s, re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and

future expansionary prospects within the realm of good corporate governance at all times.

2.2.2.1.3 The Nomination Committee shall consider the following in determining the allowable number of memberships in other corporate Boards of each director:

- The nature of the business of the Corporations which he is a director;
- Age of the director;
- Number of directorships/active memberships and officerships in other corporations or organizations; and
- Possible conflict of interest.

The optimum number shall be related to the capacity of a director to perform his duties diligently in general.

2.2.2.1.4 The Chief Executive Officer and other executive directors shall submit themselves to a low indicative limit on memberships in other corporate Boards. The same low limit shall apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence shall not be compromised.

2.2.2.2 Compensation and Remuneration Committee

2.2.2.2.1 The Compensation or Remuneration Committee shall be composed of at least three (3) members, one of whom shall be an independent director.

2.2.2.2.2 Duties and Responsibilities

- Establish a 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 ensuring that compensation is consistent with the Corporation's culture, strategy and control environment.
- Designate amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the company successfully.
- Be primarily responsible for the formulation, establishment and implementation of a procedure for the dissemination of information on individual board members and key executives of the Corporation to investors and other stakeholders. Such

information should enable such investors to evaluate the experience and qualifications of such individual board members and key executives, and to assess any potential conflicts of interest that might affect their judgment. Such information should furthermore enable such investors to properly assess the costs and benefits of remuneration plans given to such individual board members and key executives.

- Provide in the Corporation's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year.
- Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.
- Be primarily responsible for the review of existing human resources or personnel policies of the Corporation, to strengthen provisions on conflict of interest, salaries, and benefits policies, promotion, and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.
- Cause the development of a Personnel Handbook covering the same parameters of governance stated below.

2.2.2.3 Audit Committee

2.2.2.3.1 The audit committee shall be composed of at least three (3) members of the Board, one (1) of whom shall be an independent director. Each shall have adequate understanding at least or competence at most of the company's financial management systems and environment.

2.2.2.3.2 Duties and Responsibilities

- Check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.
- Perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management.
- Pre-approve all audit plans, scope and frequency one (1) month before the conduct of external audit.

- Perform direct interface functions with the internal and external auditors.
- Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following in relation to this form:
 - a) A definite timetable within which the accounting system of the Corporation will be 100% International Accounting Standard (IAS) compliant.
 - b) An accountability statement that will specifically identify officers and /or personnel directly responsible for the accomplishment of such task.
- Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the company through a step-by-step procedures and policies handbook that will be used by the entire organization.

2.3.3. The Corporate Secretary

2.3.3.1 The Corporate Secretary is an officer of the company and perfection in performance and no surprises are expected of him. Likewise, his loyalty to the mission, vision and specific business objectives of the corporate entity come with his duties.

2.3.3.2 The Corporate Secretary shall be a Filipino citizen.

2.3.3.3 Considering his varied functions and duties, he must possess administrative and interpersonal skills, and if he is not the general counsel, then he must have some legal skills. He must also have some financial and accounting skills.

2.3.3.4 Duties and Responsibilities

- Gather and analyze all documents, records and other information essential to the conduct of his duties and responsibilities to the Corporation.
- As to agenda, put the Board on notice before every meeting.
- Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.
- Attend all Board meetings and maintain records of the same.

- Submit to the Commission, at the end of every fiscal year, an annual certification as to the attendance of the directors during Board meetings.

2.3.4 External Auditor

- 2.3.4.1. An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the company, an external auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.
- 2.3.4.2. The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the company's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter if accounting principles or practices, financial statement disclosure or auditing scope or procedure.
- 2.3.4.3. The external auditor of the company shall not at the same time provide the services of an internal auditor to the same client. The Corporation shall ensure that other non-audit work shall not be conflict with the functions of the external auditor.
- 2.3.4.4. The company's external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.
- 2.3.4.5. If the external auditor believes that the statements made in the company's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

2.3.5 Internal Auditor

- 2.3.5.1. The Corporation shall have in place an independent internal audit function which shall be performed by an internal Auditor or a group of Internal Auditors, through which its Board , senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective appropriate , and complied with.
- 2.3.5.2. The internal Auditor shall report to the Audit Committee.
- 2.3.5.3. The minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Corporation's organizational and procedural controls.

2.3.5.4. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

3 COMMUNICATION PROCESS

- 3.1. This manual shall be available for inspection by any stockholder of the Corporation at reasonable hours on business days.
- 3.2. All directors, executives, division and department heads are tasked to ensure the thorough dissemination of the Manual to all employees and related third parties, and to likewise enjoin compliance in the process
- 3.3. An adequate number of printed copies of this Manual must be reproduced under the supervision of HRD, with a minimum of at least one (1) hard copy of the Manual per department.

4 TRAINING PROCESS

- 4.1. If necessary, funds shall be allocated by the CFO or its equivalent officer for the purpose of conducting an orientation program or workshop to operationalize this Manual.
- 4.2. A director shall, before assuming as such, be required to attend a seminar or corporate governance which shall be conducted by a duly recognized private or government institute.

5 REPORTORIAL OR DISCLOSURE SYSTEM OF COMPANY'S CORPORATE GOVERNANCE POLICIES

- 5.1. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the Corporation. The reports or disclosures required under this Manual to be made to the Commission shall be prepared and submitted to the Commission by the responsible Committee or officer through the Corporation's Compliance Officer.
- 5.2. All material information, i.e., anything that could potentially affect share price, shall be publicly disclosed. Disclosure should include, but not be limited to, material information on the financial and operating results of the Corporation such as earnings results acquisition or disposal of assets, board changes, Corporation objectives, major share ownership and voting rights, members of the board, key executives and their respective shareholdings and remuneration should also be disclosed.

Material foreseeable risk factors, material issues regarding employees and other stakeholders, and governance structures and policies include related party transactions, off balance sheet transactions and changes to ownership.

- 5.3. Members of the board and managers are required to disclose any materials interests in transactions or matters affecting the corporation.
- 5.4. All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report and should be prepared, audited, and disclosed in accordance with high quality standards of accounting financial and non-financial disclosure, and audit. An annual audit shall be conducted by an independent auditor in order to provide an external and objective assurance in the way in which financial statements have been prepared and presented.
- 5.5. The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the stakeholders. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users.

6 SHAREHOLDERS' BENEFIT

The company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore the following provisions are issued for the guidance of all internal and external parties concerned, as a governance covenant between the company and all its investors:

6.1. INVESTORS' RIGHTS AND PROTECTION

6.1.1. Rights of Investors/Minority Interests

The Board shall be committed to respect the following rights of the stockholders:

6.1.2. Voting Rights

Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures that govern general shareholder meetings. Shareholder should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full timely information regarding the issues to be decided at the meeting. Opportunity should be provided for shareholders to ask questions of the board and to place items on the agenda at general meetings, subject to reasonable limitations.

- 6.1.2.1. Shareholders shall have the right to elect, remove and replace directors and vote in person or by proxy on certain corporate acts in accordance with the Corporation Code, and equal effect should be given to votes whether cast in person or by proxy.
- 6.1.2.2. Cumulative voting may be used in the election of directors
- 6.1.2.3. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.
- 6.1.2.4. Within any class, all shareholders should have the same voting rights. All investors should be able to obtain information about the voting rights attached to all classes of shares before they purchase. Any changes in voting rights should be subject to shareholder vote.
- 6.1.2.5. Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders. Company procedures should not make it unduly difficult or expensive to cast votes.

6.1.3. Pre-emptive Rights

All stockholders shall have pre-emptive rights, unless the same is denied in the articles of incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the Corporation. The Articles of Incorporation shall lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.

6.1.4. Power of Inspection

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation, Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

6.1.5. Right to Information

- 6.1.5.1. The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the company's shares, dealings with the company, relationships among directors and key officers, and the aggregate compensation of directors and officers.
- 6.1.5.2. The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose

items in the agenda of the meetings, provided the items are for legitimate business purposes.

- 6.1.5.3. The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".
- 6.1.5.4. Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.
- 6.1.5.5. Markets for corporate control should be allowed to function in an efficient and transparent manner. Therefore, the rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions, such as mergers, and sales of substantial portions of corporate assets, should be clearly articulated and disclosed so that investors understand their and recourse. Transactions should occur at transparent prices and under fair conditions that protect the rights of all shareholders according to their class.
- 6.1.5.6. Anti-take-over devices should not be used to shield management from accountability.
- 6.1.5.7. Insider trading and abusive self-dealing should be prohibited.

6.1.6. Right to Dividends

- 6.1.6.1. Shareholders shall have the right to receive dividends subject to the discretion of the Board.
- 6.1.6.2. .The company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except : a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial Institution or creditor, whether local or foreign, from declaring dividends without its consent and such consent has been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

6.1.7. Appraisal Right

The shareholders' shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporations Code of the Philippines, under any of the following circumstances:

- In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code ; and
- In case of merger or consolidation.

6.1.8. It shall be the duty of the directors to promote shareholders rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

7 MONITORING AND ASSESSMENT

- 7.1. Each Committee shall report regularly to the Board of Directors.
- 7.2. 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 penalty provided under Part 8 of this Manual.
- 7.3. The establishment of such evaluation system, including the features thereof, shall be disclosed in the company's annual report (SEC Form 17-A) or in such form of report that is applicable to the Corporation. The adoption of such performance evaluation system must be covered by a Board approval.
- 7.4. This Manual shall be subject to quarterly review unless the same frequency is amended by the Board.

7.5. All business processes and practices being performed within any department or business unit of Philippine Life Financial Assurance Corporation that are not consistent with any portion of this manual shall be revoked unless upgraded to the compliant extent.

8 PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL

8.1. To strictly observe and implement the provisions of this manual, the following penalties shall be imposed, after notice and hearing, on the company's directors, officer, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:

- In case of **first violation**, the subject person shall be reprimanded.
- Suspension from office shall be imposed in case of **second violation**. The duration of the suspension shall depend on the gravity of the violation
- For the **third violation**, the maximum penalty of removal from office shall be imposed

8.2. The commission of the third violation of this manual by any member of the board of the company or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.

8.3. The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.