

## PHILIPPINES FIRST INSURANCE CO., INC.

### AMENDED CODE OF CORPORATE GOVERNANCE

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

The Board of Directors, Management, Employees and Shareholders of Philippines First Insurance Co., Inc. ("PhilsFirst") or the "Corporation") 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.

#### I. DEFINITIONS

a. *Board of Directors*- refers to the collegial body that exercises the corporate powers of all corporations formed under the Corporation Code. It conducts all business and controls or holds all property of such corporations.

b. *Corporate Governance* - refers to the framework of rules, systems and processes in the Corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to the stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which the Corporation operates.

c. *Independent Director* - refers to a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual, who apart from the directors' fees and shareholdings, is independent of management and free from any business or other relationships with the corporation, which could reasonably be perceived to or materially interfere with his exercise of independent judgment in carrying out the responsibilities of a director.

d. *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.

e. *Executive Director* - refers to a director who is at the same time appointed to head a department/ unit within the corporate organization.

f. *Non-executive Director* - refers to a Board member with non-executive functions.

g. *Non-audit Work* - refers to other services offered by the external auditor to a corporation that are not directly related and relevant to its statutory audit function. Examples include accounting, payroll, bookkeeping, reconciliation, computer project management, data processing or information technology outsourcing services, internal auditing, and services that may compromise the independence and objectivity of the external audit.

h. *Internal Control* - refers to the process effected by a company's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws, regulations, and internal policies.

i. *Internal Control Environment* - refers to the framework under which internal controls are developed, implemented, alone or in concert with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the company is exposed.

j. *Internal Auditing* - refers to an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

k. *Internal Audit Department* - refers to a department, division, team of consultants, or other practitioner(s) that provide independent, objective assurance and consulting services designed to add value and improve an organization's operations.

l. *Chief Audit Executive* - refers to the top position within the organization responsible for internal audit activities. In a traditional internal audit activity, this would be the internal audit director. In the case where internal audit activities are obtained from outside service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, and follow-up of engagement results. The term also includes such titles as general auditor, chief internal auditor, and inspector general.

m. *Independence* - refers to that environment which allows the person to carry out his/her work freely and objectively.

n. *Objectivity* - refers to unbiased mental attitude that requires the person to carry out his/her work in such a 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.

o. *Standards for the Professional Practice of Internal Auditing (SPPIA)* - refers to the criteria by which the operations of an internal auditing department are evaluated and measured. They



are intended to represent the practice of internal auditing as it should be, provide a framework for performing and promoting a broad range of value-added internal audit activities and foster improved organizational processes and operations.

*p. Code* - refers to the revised Code of Corporate Governance, SEC Memorandum Circular No.6 Series of 2009.

## II. THE BOARD GOVERNANCE

The Board of Directors (the "Board") is primarily responsible for the governance of the Corporation. It needs to be structured so that it provides an independent check on management. As such, it is vitally important that a number of board members be independent from management.

### *1. Composition of the Board*

Compliance with the principles of good corporate governance shall start with the Board of Directors.

It shall be the Board's responsibility to foster the long-term success of PhilsFirst and secure its sustained competitiveness and profitability in a manner consistent with its fiduciary responsibility, corporate objectives and the best interests of its stockholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

The Board shall formulate the Corporation's vision, mission strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.

PhilsFirst shall require all of its directors, before assuming office as such, to attend a seminar on corporate governance conducted by a duly recognized private or government institute.

The Board shall be composed of at least five (5) but not more than fifteen (15) members elected by shareholders. The Corporation shall have at least two (2) independent directors or such number of independent directors that constitutes at least twenty percent (20%) of the members of the Board, whichever is higher, but in no case less than two (2).

The Board may include a balance of executive and non-executive directors (including independent non-executives), 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 should 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. Multiple Board Seats***

The Board may consider guidelines on the number of directorships for its members. The optimum number is related to the capacity of a director to perform his duties diligently in general. The President and other executive directors may submit themselves to a low indicative limit on membership in other corporate Boards. The same low limit may 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.

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

The roles of the Chairman and the President & CEO should, as much as practicable, be separate to foster an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. A clear delineation of functions should be made between the Chairman and the President. The Corporation shall disclose the relationship between the Chairman and the President upon their election.

At PhilsFirst, the positions of the Chairman and the President & CEO are currently separated. In the event that these positions are unified, there is clearly one leader to provide a single vision and mission. In this instance, checks and balances should be clearly provided to help ensure that independent, outside views, perspectives, and judgments are given proper hearing in the Board.

The Chairman's responsibilities may include:

- a. scheduling meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the company's operations;
- b. preparing meeting agenda in consultation with the President;
- c. exercising control over the quality, quantity and timeliness of the flow of information between Management and the Board; and
- d. assisting in ensuring compliance with company's guidelines on corporate governance.

The responsibilities set out in the above guidelines may pertain only to the Chairman's role in respect to the Board proceedings. It should not be taken as a comprehensive list of all the duties and responsibilities of a Chairman.

## ***4. Qualifications of Directors***

Each director must possess the following qualifications:

- (i) He must be a holder of at least one (1) share of stock in PhilsFirst
- (ii) He must be at least a college graduate or have sufficient experience in managing the business to substitute for such formal education.



- (iii) He must be at least twenty-one (21) years old.
- (iv) He must be proven to possess integrity and probity.
- (v) He must have no conflict of interest.
- (vi) He must be able to devote his time to fulfilling his duties and responsibilities as a director.

### *5. Disqualification of Directors*

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

a. Any person who has been convicted by final judgment or order by a competent judicial or administrative body of the following: (i) any crime involving the purchase or sale of securities as defined in the Securities Regulation Code, e.g., proprietary or non-proprietary membership certificate, commodity futures contract, or interest in a common trust fund, pre-need plan, pension plan or life plan; (ii) any crime arising out of the person's conduct as an underwriter, broker, dealer, investment company, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, floor broker; or (iii) any crime arising out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them.

b. Any person who, by reason of any misconduct, after hearing or trial, is permanently or temporarily enjoined by order, judgment or decree of the Commission or any court or other administrative body of competent jurisdiction from: (i) acting as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or a floor broker; (ii) acting as a director or officer of a bank, quasi-bank, trust company, investment house, investment company or an affiliated person of any of them; (iii) engaging in or continuing any conduct or practice in connection with any such activity or willfully violating laws governing securities, and banking activities. Such disqualification shall also apply when such person is currently subject to an effective order of the Commission or any court or other administrative body refusing, revoking or suspending any registration, license or permit issued under the Corporation Code, Securities Regulation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or under any rule or regulation promulgated by the Commission or Bangko Sentral ng Pilipinas, or otherwise restrained to engage in any activity involving securities and banking. Such person is also disqualified when he is currently subject to an effective order of a self-regulatory organization suspending or expelling him from membership or participation or from associating with a member or participant of the organization.

c. Any person finally convicted judicially or administratively of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false oath, perjury or other fraudulent act or transgressions.

d. Any person finally found by the Commission or a court or other administrative body to have willfully violated, or willfully aided, 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, or who has filed a materially false or misleading application, report or registration statement required by the Commission, or any rule, regulation or order of the Commission.

e. Any person judicially declared to be insolvent.

f. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in paragraphs (a) to (e) hereof.

g. Any affiliated person who is ineligible, by reason of paragraphs (a) to (e) hereof to serve or act in the capacities listed in those paragraphs.

h. 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.

i. If the independent director becomes an officer, employee or consultant of the same Corporation he shall be automatically disqualified from being an independent director.

The Board may also provide for the temporary disqualification of a director for the following reasons:

a. Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists.

b. 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, unless the absence is due to illness, death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election.



c. Dismissal/termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity.

d. Being under preventive suspension by the Corporation.

e. If the beneficial security ownership of an independent director in the company or in its related companies shall exceed two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.

f. Conviction that has not yet become final referred to in the grounds for the disqualification of directors.

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

## ***6. Duties, Functions and Responsibilities***

It is 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 should exercise in the best interest of the Corporation and its shareholders and other stakeholders.

### ***a. General Responsibility***

A director's office is one of trust and confidence. He should act in the best interest of the Corporation in a manner characterized by transparency, accountability and fairness. He should exercise leadership, prudence and integrity in directing the Corporation towards sustained progress over the long term. A director assumes certain responsibilities to different constituencies or stakeholders, who have the right to expect that the institution is being run in a prudent and sound manner.

To ensure good governance of the Corporation, the Board should establish the corporation's vision and mission, strategic objectives, policies and procedures that may guide and direct the activities of the company and the means to attain the same as well as the mechanism for monitoring management's performance. While the management of the day-to-day affairs of the institution is the responsibility of the management team, the Board is, however, responsible for monitoring and overseeing management action.

### ***b. Duties and Functions of the Board***

To ensure a high standard of best practice for the Corporation, its stockholders and other stakeholders, the Board should conduct itself with utmost honesty and integrity in the

discharge of its duties, functions and responsibilities which include, among others, the following:

- i. Install a process of selection to ensure a mix of competent directors, each of whom can add value and contribute independent judgment to the formulation of sound corporate strategies and policies.
- ii. Select and appoint the President & CEO and other senior officers, who must have the motivation, integrity, competence and professionalism at a very high level and adopt a professional development program for employees and officers, and succession planning for senior management.
- iii. Determine the Corporation's purpose and value as well as strategies and general policies to ensure that it survives and thrives despite financial crises and its assets and reputation are adequately protected.
- iv. Provide sound written policies and strategic guidelines to the Corporation on major capital expenditures and determine important policies that bear on the character of the Corporation with a view towards ensuring its long-term viability and strength.
- v. Periodically evaluate and monitor implementation of strategies and policies, business plans and operating budgets as well as management's over-all performance to ensure optimum results.
- vi. Ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices.
- vii. Identify the Corporation's major and other stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy on communicating or relating with them accurately, effectively and sufficiently. There must be an accounting rendered to them regularly in order to serve their legitimate interests.

Likewise, an investor relations program that reaches out to all shareholders and fully informs them of corporate activities should be developed. As a best practice, the chief financial officer or President should have oversight of this program and should actively participate in public activities.

- viii. Adopt a system of internal checks and balances, which may be applied in the first instance to the Board. A regular review of the effectiveness of such system must be conducted so that the decision-making capability and the integrity of corporate operations and reporting systems are maintained at a high level at all times.



- ix. Endeavor to provide appropriate technology and systems rating to account for available resources to ensure the Corporation's position as a strong and meaningful competitor.
- x. Identify key risk areas and key 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.
- xi. 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.
- xii. Constitute an Audit Committee and a Compliance Committee.
- xiii. Properly discharge Board functions by meeting regularly. Independent views during Board meetings should be given due consideration and all such meetings should be duly minuted.
- xiv. Keep Board authority within the powers of the corporation as prescribed in the articles of incorporation, by-laws and in existing laws, rules and regulations. Conduct and maintain the affairs of the corporation within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations;
- xv. 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; and
- xvi. 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.

c. *Specific Duties and Responsibilities of a Director*

- i. To conduct fair business transactions with the corporation and to ensure that personal interest does not bias Board decisions nor conflict with the interests of the Corporation. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest should arise on the part of directors or senior executives, it should be fully disclosed and the concerned director should not participate in the

decision making. A director who has a continuing conflict of interest of a material nature should consider resigning.

- ii. To devote time and attention necessary to properly discharge his duties and responsibilities. A director should devote sufficient time to familiarize himself with the Corporation's business. He should be constantly aware of the Corporation's condition and be knowledgeable enough to contribute meaningfully to the Board's work. He should attend and actively participate in Board and committee meetings, request and review meeting materials, ask questions, and request explanations.
- iii. To act judiciously. Before deciding on any matter brought before the Board of Directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.
- iv. To exercise independent judgment. A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks are beneficial to the corporation.
- v. 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 rules, regulations and requirements of the Commission, and where applicable, the requirements of other regulatory agencies. A director should also keep himself informed of industry developments and business trends in order to safeguard the corporation's competitiveness.
- vi. To observe confidentiality. A director should observe the confidentiality of non-public information acquired by reason of his position as director. He should not disclose any information to any other person without the authority of the Board.
- vii. To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.

#### *d. Internal Control Responsibilities of the Board*

The control environment is composed of: (a) the Board which ensures that the Corporation is appropriately and effectively managed and controlled, (b) a management that actively manages and operates the Corporation in a sound and prudent manner, (c) the organizational and procedural controls supported by an effective management information system and risk management reporting system, and (d) the independent audit mechanisms to monitor the adequacy and effectiveness of the Corporation's



governance, operations, information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts.

- i. The minimum internal control mechanisms for the Board's oversight responsibility may include:
  - Defining the duties and responsibilities of the President;
  - Selecting or approving an individual with appropriate ability, integrity, experience to fill the President & CEO's role;
  - Reviewing proposed senior management appointments;
  - Ensuring the selection, appointment and retention of qualified and competent management;
  - Reviewing the company's personnel and human resource policies and sufficiency, conflict of interest situations, changes to the compensation plan for employees and officers and management succession plan.
- ii. The minimum internal control mechanisms for Management's operational responsibility would center on the President, being ultimately accountable for the company's organizational and procedural controls.
- iii. The scope and particulars of a system of effective organizational and procedural controls shall be based on factors such as: 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.
- iv. The Corporation may put in place an independent audit function, through which the Board, senior management, and stockholders may be provided with reasonable assurance that the Corporation's key organizational and procedural controls are effective, appropriate, and complied with. The Board may appoint a chief audit executive to carry out the audit function, and may require the chief audit executive to report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

## *7. Board Meetings and Quorum Requirement*

Members of the Board should attend regular and special meetings of the Board in person. In view of modern technology, however, attendance at Board meetings through teleconference may be allowed.

An independent director should always be in attendance. However, the absence of an independent director may not affect the quorum requirements if he is duly notified of the meeting but deliberately and without justifiable cause fails to attend the meeting.

Justifiable causes may only include grave illness or death of immediate family and serious accidents.

To monitor compliance with the above requirement, PhilsFirst shall, at the end of every fiscal year, provide the Commission with a sworn certification that the foregoing requirement has been complied with. The said certification may be submitted with the company's current report (SEC Form 17-1) or on a separate filing.

#### *8. Remuneration of the Members of the Board and Officers*

The levels of remuneration shall be sufficient to attract and retain the services of directors, if any, and officers needed to run the company successfully. PhilsFirst, however, should avoid paying more than what is necessary for this purpose. A portion of executive directors' remuneration may be structured so as to link rewards to corporate and individual performance.

PhilsFirst shall establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers. No director should be involved in deciding his or her own remuneration.

PhilsFirst's annual reports, information and proxy statements shall include a clear, concise and understandable disclosure of all plan and non-plan compensation awarded to, earned by, paid to, or estimated to be paid to, directly or indirectly to all individuals serving as the President or acting in a similar capacity during the last completed fiscal year, regardless of the compensation level and the corporation's four (4) most highly compensated executive officers other than the President who were serving as executive officers at the end of the last completed year.

To protect the funds of the corporation, the Commission may regulate the payment by the corporation to directors and officers of compensation, allowance, fees and fringe benefits in very exceptional cases, e.g., when a corporation is under receivership or rehabilitation.

#### *9. Board Committees*

The Board shall constitute Committees in aid of good corporate governance.

A. The Audit Committee shall be composed of at least three (3) Board members, preferably with accounting and finance backgrounds, one of whom shall be an Independent Director and shall act as Chairman. Each member shall have at least an adequate understanding or competence of most of the Corporation's financial management systems and environment. The Audit Committee shall have the following specific functions:

- a. Provide oversight over the senior management's activities in managing credit, market liquidity, operational, legal and other risks of the Corporation. This function shall include receiving from senior management periodic information on risk



exposures and risk management activities. However, in consideration of the risk profile of the Corporation, the Board may constitute a separate Risk Management Committee to focus on carrying out this oversight role over risk management;

b. Provide oversight 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;

c. Review and approve all audit plans, audit scope and frequency one (1) month before the conduct of external audit,

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 where more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

f. Be responsible for the setting-up of an internal audit department and consider the appointment of an internal auditor as well as an independent external auditor, the audit fee and any question of resignation or dismissal;

g. Monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security;

h. Receive and review reports of internal and external auditors and regulatory agencies, where applicable and ensure that Management is taking appropriate corrective actions, in a timely manner in addressing control and compliance functions with regulatory agencies;

i. Review the quarterly, half-year and annual financial statements before submission to the Board, focusing particularly on:

- 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 stock exchange requirements

j. Be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. It may also constitute a Compliance Unit for this purpose;

k. Evaluate and determine non-audit work by external auditor and keep under review the non-audit fees paid to the external auditor both in relation to their significance to the annual income of the external auditor and in relation to the company's total expenditure on consultancy. The Audit 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 annual report.

l. Establish and identify the reporting line of the chief audit executive so that the reporting level allows the internal audit activity to fulfill its responsibilities. The chief audit executive shall report directly to the Audit Committee functionally. The Audit Committee shall ensure that the internal auditors shall have free and full access to all of the Corporation's records, properties and personnel relevant to the internal audit activity and that the internal audit activity should be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results, and shall provide a venue for the Audit Committee to review and approve the annual internal audit plan;

m. Elevate to international standards the accounting and auditing processes, practices and methodologies of PhilsFirst and develop the following in relation to this reform:

(aa) a definitive timetable, congruent with that required by law, within which the accounting system of PhilsFirst will be 100% International Accounting Standard (IAS) compliant; and

(bb) an accountability statement that will specifically identify officers and/ or personnel directly responsible for the accomplishment of such task;

n. Develop a transparent financial management system that will ensure the integrity of internal control activities throughout PhilsFirst through a step-by-step procedures and policies handbook that will be used by the entire organization;

o. 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; and

p. Check all financial reports against their compliance with pertinent accounting standards, including laws and regulatory requirements;



The Chairman of the Audit Committee shall be responsible for inculcating in the minds of the Board members the importance of management responsibilities in maintaining a sound system of internal control and the Board's oversight responsibility.

B. The Nomination Committee shall be composed of at least three (3) members, one of whom should be an independent director and such other persons as the Board of Directors may designate. The Committee, if constituted, may 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.

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

The Compensation or Remuneration Committee shall also:

- (i) designate the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run PhilsFirst successfully;
- (ii) develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others shall compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict with the performance of their duties once hired;
- (iii) disallow any director from deciding on his or her own remuneration;
- (iv) provide a clear, concise and understandable disclosure of the compensation of PhilsFirst's executive officers for the previous fiscal year and the ensuing year in PhilsFirst's required reports; and
- (v) review the existing Human Resources Development or Personnel Handbook to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance with all statutory requirements that must be periodically met in their respective posts.

#### ***10. The Corporate Secretary***

The Corporate Secretary, who must be a Filipino citizen and a resident of the Philippines, is an officer of the corporation. He/ she must comply with his responsibilities as set out in the

by-laws of the Corporation. He/ she must be loyal to the mission, vision and specific business objectives of the corporation and be able to work fairly and effectively with the Board, management and stockholders.

Considering his/her varied functions and duties, the Corporate Secretary must possess administrative, interpersonal and legal skills and if he/she is not the general counsel then he/she must be aware of the laws, rules and regulations necessary in the performance of his/her duties and responsibilities. The Corporate Secretary must also have a working knowledge of the operations of the Corporation.

The Corporate Secretary shall:

- (i) be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as all other documents, records and other information essential to the conduct of his/her duties and responsibilities to PhilsFirst as set out in the by-laws;
- (ii) ensure the timely filing or submission of governmental reportorial requirements with the Insurance Commission and with the Securities & Exchange Commission, among others;
- (iii) work fairly and objectively with the Board, Management, stockholders and other stakeholders;
- (iv) get a complete schedule of the Board meetings at least for the current year and put the Board on notice before every meeting;
- (v) inform the members of the Board, in accordance with the by-laws, of the agenda for each Board meeting in consultation with the senior management of PhilsFirst, and ensure that the members of the Board have accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- (vi) attend all Board meetings and personally prepare the minutes of such meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents prevent him from doing so;
- (vii) ensure that all Board procedures, rules and regulations are strictly followed by the members;
- (viii) assist the Board in making business judgments in good faith and in the performance of their responsibilities and obligations; and



- (ix) submit an annual certification to the Commission every January 3Qth of the year regarding the attendance of the directors during Board meetings, counter-signed by the Chairman of the Board.

### **11. Independent Directors**

The independent directors shall possess such qualifications for membership in the Board as prescribed by the Securities Regulation Code, its implementing rules and regulations and other relevant laws, rules and regulations.

An "independent director" means 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 of the Corporation and includes, among others, any person who:

- (i) is not a director or officer of the corporation or of its related companies or any of its substantial shareholders, except when an independent director of any of the foregoing;
- (ii) substantial shareholders; does not own more than two percent (2%) of the shares of the Corporation and/ or its related companies or any of its
- (iii) is not related to any director, officer or substantial shareholder of the corporation, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister.
- (iv) is not acting as a nominee or representative of any director or substantial shareholder of the Corporation and/ or any of its related companies and/ or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
- (v) has not been employed in any executive capacity by the Corporation, any of its related companies and/ or by any of its substantial shareholders within the last two (2) years;
- (vi) is not retained, either personally or through his firm, or any similar entity, as professional adviser, by the Corporation, any of its related companies and/ or any of its substantial shareholders, within the last two (2) years; or
- (vii) has not engaged and does not engage in any transaction with the Corporation and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of

which he is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial.

A "related company" means another company which is: (i) its holding company; (ii) its subsidiary company; or (iii) a subsidiary of its holding company. A "substantial shareholder" means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

### III. ADEQUATE AND TIMELY INFORMATION

In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings on an on-going basis.

Management shall have an obligation to supply the Board with complete, adequate information in a timely manner. Reliance purely on what is volunteered by Management is unlikely to be enough in all circumstances and further inquiries may be required if the particular director is to fulfill his or her duties properly. Hence, the Board shall have separate and independent access to the company's senior management.

The information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. With respect to the budget, any variance between the projections and actual results should also be disclosed and explained.

Directors shall also have a separate and independent access to the Corporate Secretary. The role of the Corporate Secretary shall be clearly defined and should include responsibility for ensuring that Board procedures are being followed and that applicable rules and regulations are complied with. The Corporate Secretary should attend all Board meetings. The Board shall have a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the corporation's expense.

### IV. ACCOUNTABILITY AND AUDIT

1. *The Board is primarily accountable to the shareholders and Management is primarily accountable to the Board.* The Board shall provide the shareholders with a balanced and understandable assessment of the Corporation's performance, position and prospects on a quarterly basis. The Management shall provide all members of the Board with a balanced and understandable account of the Corporation's performance, position and prospects on a monthly basis. This responsibility shall extend to interim and other price sensitive public reports and reports to regulators (if required). The Management shall be primarily responsible for formulating, under the supervision of the Audit Committee,



the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- a. Explain the extent of its responsibility in the preparation of the financial statements of the Corporation, including the corresponding delineation of the responsibilities that pertain to the external auditor;
- b. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
- c. Maintain a sound system of internal control that will ensure the integrity of the financial reports and the protection of the assets of the Corporation for the benefit of all stockholders and other stakeholders;
- d. Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls encompassing the Corporation's governance, operations, and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts;
- e. Require the chief audit executive to render to the Audit Committee and senior management an annual report on the internal audit department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit Committee of the Board. Such annual report should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management. The chief audit executive's annual report shall likewise be made available to the stockholders of the Corporation. Internal auditors shall report that their activities are conducted in accordance with the International Standards on the Professional Practice of Internal Auditing. Otherwise, the chief audit executive shall disclose to the Board and senior management that it has not yet achieved full compliance with the standards for the professional practice of internal auditing and the reasons why he has not fully complied with said standards.
- f. The Corporation shall consistently comply with the financial and reporting requirements of the Commission.

**2. *Selection/Appointment, Resignation, Dismissal or Cessation of Service of an External and Internal Auditor***

The Board, through the Audit Committee, shall recommend to the stockholders a duly accredited external auditor who shall undertake an independent audit and shall provide an objective assurance on the way in which financial statements shall have been prepared and presented to the stockholders. Such external auditor cannot at the same time provide the services of an internal auditor to PhilsFirst. Non-audit work may be given to the external auditor, provided it does not conflict with his functions of the external auditor or pose a threat to his independence.

(a) External Auditor

The external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.

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 of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which the former auditor and the corporation failed to resolve satisfactorily. A preliminary copy of said report shall be given by the Corporation to the external auditor before its submission.

If an external auditor believes that the statements made in an annual report, information statement or proxy statement filed during his engagement are incorrect or incomplete, he shall also present his views in said reports.

(b) Internal Auditor

PhilsFirst shall maintain 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.

The Internal Auditor shall report to the Audit Committee.

The minimum internal control mechanisms for Management's operational responsibility shall center on the President, being ultimately accountable for PhilsFirst's organizational and procedural controls.

The scope and particulars of PhilsFirst's system of effective organizational and procedural controls are based on the following factors: (i) the nature and complexity of PhilsFirst's business and business culture; (ii) the volume, size and complexity of transactions; (iii) the degree of risk; (iv) the degree of centralization and delegation of authority; (v) the extent and effectiveness of information technology; and (v) the extent of regulatory compliance.



V.  
**STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY  
STOCKHOLDERS' INTERESTS**

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

***1. Voting Right***

Shareholders have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code and the by-laws of the Corporation.

***2. Pre-emptive Right***

All stockholders have pre-emptive rights, unless there is a specific denial of this right 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 may lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which are protected by law so long as they are not in conflict with the Corporation Code.

***3. 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. The shareholders shall also be furnished with an annual report, including financial statements, without cost or restrictions.

***4. Right to Information***

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 Corporation's shares, dealings with the Corporation, relationships among directors and key officers, and the aggregate compensation of directors and officers. The Information Statement/Proxy Statement where these are found must be distributed to the shareholders before annual general meetings and in the Registration Statement and Prospectus in case of registration of shares for public offering with the Commission.

The minority shareholders should 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 should include such information and, if not included, then the minority shareholders can propose to include such matters in the agenda of the stockholders' meeting, being within the definition of "legitimate purposes".

### ***5. Right to Dividends***

Shareholders have the right to receive dividends subject to the discretion of the Board and in accordance with law.

### ***6. Appraisal Right***

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares. All rights granted by law to shareholders shall be observed by the Corporation.

### ***7. Stockholders' Meetings***

The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

### ***8. Other Stockholders' Rights***

- (a) It is the duty of the Board to promote the right of stockholders, remove impediments to exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.
- (b) The Board should take appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.
- (c) Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation.

## **VI.**

### **DISCLOSURE AND COMMUNICATION PROCESS**

A dominant theme in all issues related to corporate governance is the vital importance of disclosure. The more transparent the internal workings of the company and cash flows are, the more difficult it will be for management and controlling shareholders to misappropriate company assets or mismanage the company.



It is therefore essential that all material information about the Corporation, i.e., any thing that could potentially affect share price, viability of the Corporation or the interest of its stockholders and other stakeholders should be publicly and timely disclosed. Such information would include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership. Other information that should always be disclosed includes remuneration (including stock options) of all directors and senior management corporate strategy, and off balance sheet transactions. All disclosed information should be released via the approved stock exchange procedure for company announcements as well as through the annual report. The Corporation shall disclose all material information, in accordance with the Securities and Regulations Code and its implementing rules and regulations.

The reports or disclosures required under this Manual shall be prepared and submitted to the Commission by the responsible Committee or through the Corporation's Compliance Officer.

The Board shall therefore, commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Commission for the interest of the stakeholders.

This Manual shall be available for inspection by any stockholder of the Corporation at reasonable hours on business days.

All directors, executives, division and department 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.

An adequate number of printed copies of this Manual must be reproduced, with a minimum of at least one (1) hard copy of the Manual per department.

## **VII.**

### **COMMITMENT TO CORPORATE GOVERNANCE Compliance Officer**

To insure adherence to corporate principles and best practices, the Chairman of the Board shall designate a Compliance Officer. The Compliance Officer shall hold, at minimum, the position of a Vice-President or its equivalent. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer. He shall have direct reporting responsibilities to the Chairman of the Board.

#### **(1) Duties**

The Compliance Officer shall perform the following duties:

- (a) identify and monitor compliance with the rules and regulations of regulatory agencies, and take appropriate corrective measures to address all regulatory issues and concerns.
- (b) monitor compliance by the Corporation with the provisions and requirements of this Manual and the rules and regulations of regulatory agencies. If any violations are found, he shall report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties in accordance with the provisions of this Manual and the adoption of measures to prevent a repetition of the violation;
- (c) appear before the Securities and Exchange Commission when summoned in relation to compliance with this Manual;
- (d) issue a certification every January 30th of the year on the extent of PhilsFirst's compliance with this Manual for the completed year, explaining the reasons, if any, for PhilsFirst's deviation from the same;
- (e) identify, monitor and suggest ways to control compliance risks; and
- (f) perform all the duties and responsibilities provided for in the Code.

The PhilsFirst Compliance Officer and Corporate Secretary are currently two distinct positions.

(2) Disclosure

The appointment of the Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C and to the Philippine Stock Exchange. All correspondence relative to his functions as such shall be addressed to the Compliance Officer.

## VIII. MONITORING & EVALUATION SYSTEMS

Each Committee shall report regularly to the Board of Directors.

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 IX of this Manual.



The establishment of such evaluation system, including the features thereof, shall be disclosed in PhilsFirst annual report (SEC Form 17-A) or in such form of report that is applicable to PhilsFirst. The adoption of such performance evaluation system must be covered by a Board approval.

The Manual shall be subject to annual review unless the Board amends said frequency.

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

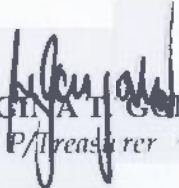
## IX. ADMINISTRATIVE SANCTIONS

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

- A. In the case of a first violation, the subject person shall be reprimanded.
- B. Suspension from office shall be imposed in the case of a second violation. The duration of the suspension shall depend on the gravity of the violation.
- C. For a third violation, the maximum penalty of removal from office shall be imposed.
- D. The commission of a third violation of this Manual by any member of the Board of PhilsFirst or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.
- E. The Compliance Officer shall be responsible for determining violation/ s through notice and hearing and shall recommend the imposable penalty for such violation to the Chairman of the Board, for further review and approval of the Board.

Signed this 21st day of July 2014 at Makati City.

Signed:

  
REGINA T. GONZALES  
SVP/Treasurer 