

# CIC MANUAL ON CORPORATE GOVERNANCE

(2022)

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## **I. INTRODUCTION:**

COMMONWEALTH INSURANCE COMPANY (the Corporation or CIC for brevity) is committed to uphold the paramount standard of corporate governance as framed in our Articles of Incorporation, the By-Laws, Corporate Governance Manual, the Insurance Code and its Implementing Rules and Regulations, the Counter Terrorism Financing (CTF), Money Laundering & Terrorism Financing Prevention Program (MLTFPP), and other pertinent laws.

The objective of manual of corporate governance is to institutionalize the principles of good corporate governance, setting the rules, duties and responsibilities owed by the management and Board of Directors to the stockholders and shareholders, to the clients, and the insuring public.

This Manual is our company's preparation to ASEAN Corporate Governance, our compliance to the provisions of Insurance Code as amended by Republic Act No.10607, Anti-Money Laundering Law, the Corporation Code, the Counter Terrorism Financing (CTF), Money Laundering & Terrorism Financing Prevention Program (MLTFPP), and other pertinent laws rules and regulations.

## **II. DEFINITION OF TERMS:**

- a.) Corporate Governance = 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, the insuring public, including among others, customers, employees, suppliers, financiers, government, community, and the industry in in which it operates.
  
- b.) Board of Directors = the governing body elected by the stockholders that exercises the corporate powers of the corporation, conducts all its business and controls its properties.

Directors shall include:

- 1.) Directors who are named as such in the articles of incorporation;
  - 2.) Directors who are duly elected in subsequent meetings of stockholders; and,
  - 3.) Those elected to fill the vacancies in the Board of Directors.
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- c.) Management = the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation. The Management is primarily accountable to the Board for the operations of the corporation. It shall provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities.
  
  - d.) Independent Director = a person who apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

Independent Director shall also mean:

- 1.) A person who is not or has not been an officer or employee of the company during the past three (3) years counted from the date of his/her election;
- 2.) Who is not a director or officer of the related company of the corporation's majority stockholder;
- 3.) Is not acting as nominee or representative of any director or stockholder of the corporation;

- 4.) Is free from any business or other relationships with the institution which could materially interfere in the exercise of his/her independent judgment.
- e.) Executive Director = is a director who is also the head of a department or unit of the Corporation or performs any work related to its operation.
- f.) Non-executive Director = a director who is not the head of a department or unit of the Corporation nor performs any work related to its operation.
- g.) Non-audit work = the other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions such as, accounting payroll, bookkeeping, reconciliation, computer project management, data processing or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor.
- h.) Internal control = the system established by the Board of Directors and Management for the accomplishment of corporation's objectives, the efficient operation of its business, the reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules.
- i.) Internal control system = the frameworks under which internal control are developed and implemented to manage and control a particular risk or business activity, or combination of risks or businesses activities to which a corporation is exposed.
- j.) Internal audit = and independent and objective assurance activity designed to add value to and improve the corporations operations, and help it accomplish its objective by providing a systematic and disciplined approach in the evaluation and accomplishment of effectiveness of risk management, control, and governance processes.
- k.) Internal audit department = a department or unit of the corporation and its consultants, if any, that provide independent and objective assurance services in order to add value and to improve the corporation's operations.
- l.) Internal auditor = one of the highest position in the operation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results. The Internal Auditor shall report to the Audit Committee. The minimum internal control mechanisms for management's operational responsibility shall center on the CEO and Management Committee, being ultimately accountable for the company's organizational and procedural controls.

- m.) Independence = this refers to matters giving a person to exercise his independent judgment in carrying his work freely and voluntarily and without any influence whatsoever.
  
- n.) Objectivity = in carrying and in the performance of his assigned task, the officer must be characterized by and clothed with the cold neutrality of an impartial tribunal.
  
- o.) Stakeholder = refers to group of stockholders, owners, officers, employees, suppliers, creditors, insured and policy holders, and the community.
  
- p.) Majority Stockholder or Majority Shareholder = where the owner of share/s, whether natural or juridical, is owning more than fifty (50%) percent of the voting rights of the company.
  
- q.) Corporate Secretary = in addition from custodian of corporate records, books, and minutes of the meetings held, she/he also plays a significant role in supporting the Board to discharge its responsibilities.

### **III. STRUCTURE OF GOVERNANCE:**

#### **A.) The Board of Directors**

The Board of Directors (the “Board”) is the primarily responsible for the governance of the corporation. Corollary to setting the policies for the accomplishment of corporate objectives, it shall provide and independent check on Management. It implements the plan to foster the long-term success of the Corporation and ultimately acts for the best interest of its stakeholders and shareholders, officers and employees, the insuring public and the community as well. It is also the policy of the corporation to raise bar of corporate governance in the insurance industry by adopting the corporate governance best practices in the ASEAN region.

#### **Composition**

The Board of Directors shall consist of eleven (11) members (nine (9) regular members and two (2) independent director) who are holders of voting stock of the Corporation in their own right, and all of them are Filipino Citizen and residents of the Philippines. The Directors are all elected every year by the stockholders during the annual stockholders meeting, to hold their office until their successors are appointed and qualified, unless removed earlier from office for cause or as may be provided for by law.

Mandated to the Directors to work together as part of an efficient and reliable body or assembly with the undertaking by virtue of the nature of their positions to plan and implement the long term and best interest of the Corporation.

Each Director is required to attend advance studies and seminars to update their knowledge and skills with the changing business prevailing in the region and situation in the community as well as the recent technology.

In sum, a Director should also keep abreast with the industry developments and business trends in order to promote the corporation’s competitiveness par at regional and global standards.

#### **Qualifications**

In determining the Director is fit and proper, the following matters must be considered, to wit:

1. Holder of at least one (1) share of voting rights of the Corporation;
2. Must be a college graduate or equivalent academic degree;

3. Member in good standing in relevant industry, business or professional organization;
4. He must have attended the seminar for Board of Directors conducted by the proper Government Agency or Accredited Entity;
5. He must possess the necessary expertise, experience and skills in terms of insurance businesses;
6. Capable in managing the affairs of corporation preferably in field of insurance and other related transaction; and,
7. He must be fit enough and proper for the position of a Director of insurance company under the terms and conditions required by concerned Government Agency and the Office of the Insurance Commission.

### **Disqualifications**

1. A person convicted by final judgment or order by a competent court or tribunal involving moral turpitude or dishonesty, breach of trust and confidence such as estafa, and falsification of commercial documents;
2. Any person who by reason of misconduct, after hearing, is permanently enjoined by final judgment or order of Court, tribunal or administrative body of competent jurisdiction from: (a) acting as Underwriter, broker, dealer, distributor, commission merchant; (b) acting as officer or director of insurance company or broker; (c) engaging or continuing any conduct or practice mentioned in sub-par (a) & (b) above, or willfully violating any laws that govern insurance and insurance broker activities;
3. Those who have been convicted by final judgment for violation of Insurance Code, and, Corporation Code;
4. Those with derogatory records with NBI, PNP, Court, and other Government Regulatory Body;
5. Those that are judicially declared insolvent, spendthrift, or incapacitated to enter into a contract;
6. Directors or Officers of closed corporation or entities who were responsible and or accountable for such closure as determined by the Monetary Board or Insurance Commission; and,
7. Those who are convicted of an offense involving economic sabotage.

### **Duties & Responsibilities**

The compliance to the principles of good corporate governance is originated with the Board of Directors. To ensure a high standard of best practices for the corporation, its stockholders and other stakeholders, the Board shall conduct themselves with utmost honesty and integrity in the discharge of its duties, responsibilities and functions. In general, this includes the following:

1. It is the Board's responsibility to foster the long term success of the corporation and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of insurance company's stockholder and other stakeholders; and,
2. Formulates the corporation's vision, mission, strategic objectives, policies and procedure that shall guide its activities including the ways and means to effectively monitor Management performance. This shall include the following:
  - 2.1. Implement a process for the selection of directors who can add value and independent judgment to the formulation of sound corporate policies;
  - 2.2. Provide sound strategic policies and guidelines to the corporation on major capital expenditures and budgets and ensuring that they are compatible with the short- term and long-term objectives;
  - 2.3. Ensure the corporation's faithful compliance with all the applicable laws, regulations and best insurance business practices;
  - 2.4. Identify key risk areas, 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;
  - 2.5. Adopt a system of check and balances with the Board. A regular review and check of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a review of corporation's internal control system in order to maintain its adequacy and effectiveness;
  - 2.6. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities;
  - 2.7. Establish and maintain an alternative dispute resolution system in the corporation and its stockholders that can amicably settle conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including the regulatory authorities;
  - 2.8. Appoint Compliance Officer who shall have the rank of at least vice president or its equivalent in terms of skills and experience in the business of corporation; who shall report directly to the Chairman of the Board; who monitors the compliance by the corporation with the Insurance Code and other applicable laws; Appear before the Commission; Issue a certification every year on the extent of the corporation's compliance with the Code and Rules.



## **Policy on Multiple Board Seats**

Every Director must exercise due diligence and consider the most favorable point to the best interest of the corporation in accepting and holding the position of directorships with the other corporation. The best obtainable number must be considered under specific conditions depending upon the ability to know and perform his duties diligently and efficiently.

The indicative limit on membership of the Chief Executive Officer and other Directors with the other corporate boards must be two (2) or lower. The same limitation applies to Independent Directors serving as semi full-time executives in other corporations. In any case, the ability and/or capacity of the Directors to diligently and efficiently perform their duties and responsibilities to the board they serve must not be compromised.

## **The Chairman & Chief Executive Officer**

The role of Chairman and CEO are distinct and separate to foster an appropriate balance of power, increased accountability and enhance better capacity in independent decision-making by the Board. There is transparency and clear delineation of function between the Chairman and CEO upon taking oath to their respective offices.

The position of Chairman and CEO are distinct and separate. Proper checks and balances were laid down to ensure that Board secured the benefit of independent views, plans and perspective.

Among the duties and responsibilities of the Chairman in relation to the Board includes the following:

1. To ensure that the meetings of the board are held in accordance with the by-laws or as the Chairman may deems it necessary in cases of extreme urgency;
2. Supervise the preparation of the agenda of meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and Directors;
3. Maintain qualitative and timely lines of communication and information between the Board and Management.

## **B.) Individual Directors**

A Director's Office is one of trust and confidence. He should act in the best interest of the Corporation in such a way that is characterized by transparency and honesty, accountability, just and fairness. He should also exercise diligence, leadership, probity, and act with competence in directing the Corporation toward sustained progress.

### **Specific Duties and Responsibilities**

A Director should have the following norms of conduct:

1. Conduct fair business transactions with the corporation, and ensure that his personal and/or business interest does not bias Board decisions or conflict with the interest of the corporation;
2. Devote time and attention necessary to properly and effectively discharge his duties and responsibilities;
3. Act judiciously. That is, before deciding on matters brought before the Board, a Director should carefully evaluate the issues, and if necessary, make inquiries and request clarifications thereon, or in case of conflict of interest, abstain thereon;
4. Exercise independent judgment. A Director should view each problem or situation objectively. Opined that each issues be threshed out one by one. Should dissenting opinion arises, he should support plans and ideas beneficial to the interest of the corporation, stockholder, stakeholders and the insuring public;
5. Have a working knowledge of statutory and regulatory requirements of the Government affecting the corporation, including its articles of incorporation and by-laws, rules and regulations issued by the Insurance Commission, the Securities and Exchange Commission, the Dept. of Finance wherever is applicable as well as the other regulatory agencies;  
He must be updated and keep abreast with the development in insurance industry and recent technology to promote competitiveness of the Corporation;
6. Observe confidentiality. He is not allowed to reveal business/trade secret of the Corporation, or, to disclose or reveal any confidential information without to unauthorized persons without written consent or authority from the Board;
7. To ensure the continuing soundness and effectiveness of the corporation's control, protection, and preservation to the environment.

## **Qualifications**

In addition to the qualifications for Directorship in the Board provided for in the Corporation Code, Securities and Regulations, and other relevant laws, the Board may provide for additional qualifications of a Director, to wit:

1. He must be a college graduate or equivalent academic degree or have sufficient experience and expertise in terms of management preferably in insurance industry to substitute for such formal education;
2. He must have attended a special training and seminar for the Board of Director conducted by Institute of Corporate Directors (ICD) or by any agency duly accredited with the Insurance Commission;
3. He must be fit and proper, intelligently enough for the position of a director of insurance or re-insurance company. In determining a director is fit and proper for the position, the following must be considered:
  - \*integrity/probity;
  - \*competence;
  - \*education;
  - \*diligence; and,
  - \*previous business experience

## **Disqualifications**

Without prejudice to specific provisions of existing laws, rules and regulations prescribing disqualifications for directors, the following shall also be considered disqualifications:

### **A.) Permanent:**

The Board further provides for permanent disqualification of a director for any of the following grounds:

1. Any person found guilty of an offense involving moral turpitude or similar offenses involving (commercial/business) fraud, estafa, and/or dishonesty;
2. Any person judicially declared insolvent, spendthrift or incapacitated to enter into contracts;
3. Those found guilty of violations of insurance &/or commercial laws;
4. Those found guilty of violation of Corporation Code committed within five (5) prior to his/her assumption of office as director;

5. Those persons found guilty by foreign court or equivalent financial regulatory body for acts inimical to the insurance and financial industry;
6. Directors or Officers of closed insurance companies who were responsible for such closure as determined by the Commission or Government Regulatory Agency;
7. Any person earlier elected as Independent Director who becomes an officer or consultant of the same corporation;
8. Any person found guilty of tax evasion case/s; and,
9. Any other acts similar to the foregoing paragraphs.

**B.) Temporary:**

The Board further provides for the temporary disqualification of a director for any of the following grounds:

1. Unjustified refusal to fully disclosed the extent of his business interest when so required by the Insurance Commission, regulatory body or Government Agency. This disqualification is in effect as long as refusal persists;
2. Absence or non-participation for whatever reason/s exceeding fifty (50%) percent of all meetings, both regular and special, during his incumbency, unless the absence is due to serious illness and/or accident incapacitating him to performs his duties and/or assigned task, and/or death of the immediate member of the family;
3. Failure to discharge his duties and responsibilities prescribed under existing rules and regulations;
4. Dismissal or termination for cause as a director of other corporation under the supervision and regulation of the Insurance Commission. This temporary disqualification is in effect until he has cleared of himself from any involvement in the cause giving rise to his dismissal or termination;
5. Violation of tax code. This temporary disqualification shall apply unless and until the dismissal of the case or he entered into a compromise settlement; and,
6. Any other or analogous cases.

### **C.) Independent Directors**

An Independent Director is free from any interest or relationships with the corporation or any of its major stockholder which could materially interfere with the exercise of his independent judgment. He is not engaged in any transactions with the corporation. The two (2) Independent Directors elected by the Board is/shall:

1. Is not an officer or employee of the corporation at least three (3) years immediately preceding his incumbency or election to the Board;
2. Is not an officer or director of the related company of the corporation's majority stockholder;
3. Is not a relative within the fourth civil degree or consanguinity or affinity, legitimate or common-law of any director, officer or majority shareholder of the company or any of its related company;
4. Not acting as nominee or representative of any director or shareholder of the company or any of its related company;
5. Except for remuneration for being a director, he shall not receive from the corporation or from its group, any sum or pecuniary benefit;
6. Not have been an associates of the external auditor, or responsible person for the audit report at least three (3) years immediately preceding his election as independent director;
7. Shall not hold a significant shareholding participation in the corporation.

### **D.) New (First-Time) Directors**

Orientation Process. The Corporation created an in-house orientation programs incorporating briefings from the corporate and regulatory bodies and which are arranged for newly-elected Directors and newly-hired officers and employees to acquaint them with the company's businesses, insuring public, regulatory environment, and governance practices. Each newly-elected Director is also provided with a Director's Kit which contains company policies and other information pertaining to his duties and obligations as a Director provided under existing laws and regulations.

The orientation program includes the IC-mandated topics on corporate governance and an introduction to the company's business, Articles of Incorporation, and Code of Conduct.

The company has a policy that encourages Directors to attend annual continuing programs. Some experts in the field of non-life insurance and surety bonds industry are invited as speakers in this enhancements sessions to share their expertise in

governance, risk management, technology, and other relevant corporate governance matters.

Training and development. The Corporation requires orientation program and seminars for the first-time directors and relevant annual continuing training for all directors. The purpose of which is to promote effective board performance and the continuing qualification of the directors in carrying out their duties and responsibilities.

In sum, all Directors, as well as Officers with a rank of Vice-President and/or Department head and up, are enjoined to attend at least a one-day training and orientation course on Corporate Governance conducted by duly accredited training providers. Subsequently, all new Directors appointed shall complete this requirement within the first four (4) months of their assumption to office and with the corresponding compliance submitted to the Office of the Insurance Commission.

#### **IV. ADEQUATE TIMELY INFORMATION**

To enable the members of the Board to properly fulfill their duties and responsibilities, Management should provide them with complete, adequate and timely information concerning matters to be taken in their meetings.

Reliance on information volunteered by the Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and the Corporate Secretary.

The information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecast, and internal financial documents.

The members either individually or acting as a Board, and in furtherance of their duties and responsibilities, should have access to an independent professional advise at the expense of the corporations.

Channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by users and other stakeholders. It must be transparent and open.

## V. ACCOUNTABILITY AND AUDIT

A.) The Board is primarily accountable to the stockholders and stakeholders. It should provide them with the balanced and comprehensive assessment of the corporation's performance, positions and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators of Government Agency required by law.

It is essential that Management should formulate, under the supervision of Audit Committee, the rules and procedures on financial reporting and internal control conformably to the guidelines, to wit:

- 1.) The extent of its responsibility in the preparation of financial statements of the corporation;
- 2.) An effective system of internal control that will ensure the integrity of financial reports and protection of assets of the corporation should be maintained for the benefit of all stockholders and other stakeholders;
- 3.) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that covers the corporation's governance, operations and information systems;
- 4.) Should consistently comply with the financial reporting requirements of the Insurance Commission;
- 5.) The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency; The internal auditor should submit to Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to audit plans and strategies as approved by the Audit Committee;
- 6.) The annual report should include significant risk exposures, control issues and such other matters required by the Management. This include affirmation by the Internal Auditor that he conducts his activities in accordance with the international standards on the Professional Practice of Internal Auditing. Further, the annual report must include adherence to ASEAN regional initiatives to promote transparency;
- 7.) An annual audit is conducted by an independent, qualified, and competent auditor in order to provide an external objective assurance to the Board and shareholders that the financial statements fairly represents the financial position and performance of the company in all material respects.

**B.)** The Board after consultation with the Audit Committee, recommends to the stockholders an external auditor duly accredited by the Insurance Commission who undertake and provide an objective assurance on the manner by which the financial statement shall be presented to the stockholders.

If an external auditor believes that any statements made in an annual report, information or any report filed with the Insurance Commission or any regulatory body during the period of his engagement is incorrect, improper or incomplete, he shall give his comments and views on the matter in the aforementioned reports.

The Board of Directors and Corporate Officers of the company should affirm at least annually the accuracy of the company's financial statements or financial accounts.

Further, it is the accountability and responsibility of the Board of Director to conduct an annual performance and assessment to the President, CEO, and Chairman of the Board.

## **VI. SHAREHOLDER'S RIGHTS AND PROTECTION OF MINORITY INTEREST**

**A.)** The Board shall be committed to respect the rights of the stockholders as provided for in the Corporation Code, namely:

1. Right to vote on all matters that required their consent or approval (amendment to Arts. of Inc./By-Laws; merger or consolidation; sale of substantial assets of the corp.; Investment to another corp.; shortening of term of the corp.);
2. Pre-emptive right to all stock issuances of the corporation;
3. Right to inspect corporate books and records;
4. Right to information;
5. Right to dividends;
6. Appraisal right.

The Board, recognizes the most cogent evidence of good corporate governance which is visible to the eyes of the investors. Therefore, the following provisions are incorporated as governance covenant between the company and the shareholders since the latter should be able to exercise and enjoy the essential attribute of ownership over his/their shares, to wit:

7. To have access to and knowledge of issues that affects the corporation as a whole;
8. Participate in the annual general meeting (AGM);
9. The right to nominate, elect, remove and replace directors, and on certain corporate acts in accordance with by-laws and corporation code;
10. Subscribed to new securities offerings;
11. To buy, sell, or transfer assets of the company.



## B.) Other Protection and Rights

In the conduct of the annual and special stockholder's meetings, the Board should be transparent and fair to the former. The stockholders must be encouraged to personally attend the meetings. They have the right to attend by Proxy.

It is the duty of the Board to promote the rights of stockholders, remove the impediments blocking the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights;

An accurate and timely information should be made available to stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration and approval. They must be given the right to effectively participate in key corporate governance decisions, nominations and elections;

## C.) Equitable Treatment of Shareholders

Although all stockholders should be treated equally or without discrimination, the Board should give the minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate to the business of the corporation.

The Board ensures fair treatment of controlling and minority shareholders. Shareholders should be protected from possible tunneling actions by controlling shareholders, acting either directly or indirectly through the use of other means or related party transactions.

## **VII. GOVERNANCE & SELF-RATING SYSTEM**

The Board may create an internal self-rating system that can measure the performance of the Board and Management in accordance with the criteria provided for in the Revised Code of Corporate Governance.

The creation of such self-rating system, including its salient features may also be disclosed in the corporation's report.

## **VIII. DISCLOSURE & TRANSPARENCY**

The essence of corporate governance is transparency. The more transparent the internal workings of the corporation are, the more difficult it will be for the Management and dominant stockholders to mismanage the corporation or misappropriate its assets.

It is therefore essential that all material information about the corporation which could adversely affect its viability or the interest of its stockholders and other stakeholders should be publicly and timely disclosed. Such information should include among others, production and earning result, premiums written, settled claims, acquisition and disposition of assets, balance sheet transactions, related party transactions, and direct and indirect interest, and, remuneration of members of the Board and Management.

Transparency of the Board and Management includes but not limited to the following:

- a.) Have and disclosed policy concerning ownership of shares by senior managers and executive directors with the objective of aligning the interest of these key officers with the stockholders and other shareholders;
- b.) Major share ownership and voting rights, including group structures, intra- group relations, ownership data, and beneficial ownership including those holding 5% shareholdings or more;
- c.) Must include a description of the relationship of the company to the other companies in the corporate group, data on major shareholders, and information necessary for proper understanding of relationships with its public shareholdings, should there be any.

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 mechanism and submission to the Commission for the interest of its stakeholders and other stockholders.

## **IX. COMMITTEE**

To support in complying with the principles of good corporate governance, the Board shall constitute the necessary Committees for specific duties and responsibilities as may be applicable in fulfilling its goal.

### **A.) The Executive Committee**

There shall be an Executive Committee consisting of seven (7) directors and officers designated by the Board of Directors. This committee shall have and exercise such functions and powers which are reserve for the Board during interval between meetings of the Board of Directors, except the power to initiate amendment or deviation from the basic fundamental policies and for such other restrictions and functions provided all matters passed and acted upon shall be reported to the Board of Directors.

### **B.) Audit & Finance Committee**

There shall be an Audit and Finance Committee composed of seven (7) members, three (3) of whom are members of the Board, two (2) senior managers, and two (2) from accounting and treasury department who are required hold meeting quarterly. . However, the Board recently held that one (1) shall be an Independent Director to be designated as Chairman. It shall provide oversight of the corporation's financial reporting and control and internal and external audit functions. It shall be responsible for the setting up of internal audit department and for the appointment and removal of internal auditor who shall report directly to the Audit Committee. Elevate to international standards the accounting and auditing process, practices and methodologies and most importantly, develop a transparent financial management system that will ensure the integrity of internal control activities throughout the corporation as an insurance company.

### **C.) The Corporate Governance Committee**

The Corporate Governance Committee shall assist the Board of Directors in fulfilling its corporate governance responsibilities. This committee shall serve as the primary resource for the Board to study, evaluate and make recommendations about the structure, policies and practices to address issues of good governance. It shall be composed of at least six (6) members: Three (3) of whom are members of the Board; two (2) are Independent Directors; and, one (1) Compliance Officer. All of them are designated by the Board of Directors.

#### **D.) Nomination Committee**

There shall be a nomination committee consisting of at least five (5) members who meets at least three (3) times a year. The Chairman must be an Executive Officer; one of whom is Independent Director; one regular member of the Board, one Senior Officer, and one member who is a Human Resources Director. This committee promulgates the guidelines or criteria to govern the conduct of nomination. It shall be pre-screened the qualification and prepare the final list of the candidate for the Board of Directors, Key Officers and Independent Directors.

#### **E.) Compensation and Remuneration Committee**

The Compensation and Remuneration Committee shall compose of at least four (4) members of the Board who meets thrice a year. It is task to assist the Corporate Governance Committee and the Board of Directors by recommending and overseeing the implementation of program of salaries and other benefits for Directors and Senior Management that would attract the best talents to aid the Corporation.

#### **F.) Board Risk Oversight Committee**

In line with the best corporate governance practices and to secure effective management's operation, strategy, financial, and compliance risk, The Board of Directors of Commonwealth Insurance Company (CIC) created the Risk Oversight Committee to help and assist in fulfilling the Board's oversight responsibilities in connection to risk governance of the Company.

Composition and Structure.

This Committee shall be comprised of at least three (3) members of the Board, majority of whom shall be independent director, which serve as committee chairman.

The Chairman must not be a Chairman of the Board or of any other committee.

The Committee shall meet at least five (5) times a year or more as frequently needed.

Function and Responsibilities.

1. Assist the Board in fulfilling its responsibility for oversight of the organizational risk management procedure including periodic disclosure of risk exposure management activities.
2. Ensure that an overall set of risk and management policies and procedures exist for the Company.
3. Encourage discussions relative to the risk faced by the company, as well as its agencies that may have potential impact on the company's Underwriting

Guidelines and operation as a whole and ensure that risk awareness culture is embedded throughout the organization.

4. Review and endorse to the Board changes or amendments of Underwriting Guidelines to the enterprise risk management policy.
5. Conduct regular discussion with the company's Underwriter and Risk Officer on top risk exposure based on regular risk management report and assess how the company are addressing and managing the risk.
6. Report to the Board of Directors on a regular basis, or as it may deemed it necessary, the company's risk exposures and the actions taken to reduce the risk.

### **G.) Related Party Transaction Committee**

The Committee shall be composed of four (4) non-executive directors and member, two (2) of whom shall be independent director. The Board shall designate the Chairman of the Committee, who shall be an independent director. (However, please note that as of today, the Board has designated the position of OIC-Chairman which shall be replaced upon appointment or designation of regular Chairman.)

The Board shall appoint the members of the Committee during its annual general membership meeting and each member shall serve upon his election until the next organizational meeting of the Board, unless removed or replaced by the Board.

#### **Duties and Responsibilities of the Committee**

The Committee shall be tasked in reviewing all materially related party transactions (RPTs) of the Company which for this purpose, shall have the following powers, duties and responsibilities:

1. Evaluates on an ongoing basis existing relations between those businesses and counterparties to ensure that all related parties are properly identified, RPTs are monitored, and subsequent changes in the relationships with counterparties are determined and secured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and Government Regulators or to the Insurance Commission;
2. Evaluates all material RPTs to ensure that these are not undertaken on a more favorable economic terms (e.g. agent's commission, rates, fees, etc.) to such related parties than similar transaction with non-related parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential risk issues that may arise as a result of or in connection with the transactions. (Example, The related party's relationship to the Company and interest in the transaction. The material facts of the proposed RPT, including the proposed aggregate value of such transaction);

3. Ensures that transactions with related parties, including write-off or exposures are subject to independent review or audit processes;
4. Oversees the implementation of the system for identifying, monitoring, measuring controlling and reporting RPTs, including a periodic review of RPT policies and procedures;
5. Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties; and,
6. The Committee shall be guided by the Company's mission and vision in the fulfillment of its functions.

## **H.) Compliance Officer Committee**

In General. The Compliance Committee assists the Board of Directors of the Corporation (the "Board") with overseeing the Corporation's activities in the areas of compliance with laws and regulations applicable to its business, the non-life insurance and surety bond provider's business.

The Compliance Committee shall have the authority to undertake the specific duties and responsibilities described below and the authority to undertake such other duties as are assigned by law, the Corporation's Articles of Inc. or By-Laws, or by the Board.

This Committee shall have the power to retain counsel, accountants, auditors and other advisors and on such terms as the Committee deems its duties and responsibilities, However, the Committee shall not engage the Corporation's Independent Auditors to perform any services without approval of the Audit Committee.

Membership. The Committee shall consist of as many members as the Board may determine, but in any event not less than four (4) members. They shall appointed by the Board upon recommendation of Nominating and Corporate Governance Committees.

Responsibilities. The Committee oversees the Corporation's activities in the area of corporate compliance ("program") that may impact the Corporation's business operations or public image, in light of applicable government and industry standards, as well as legal and business trends and public policy issues.

The Committee shall assess management's implementation of the Corporate Compliance Program element, including:

1. The adequacy and effectiveness of policies and programs to ensure the Corporation's compliance with laws and regulations applicable to its non-life insurance and surety bond's provider business and any and associated risks, including without limitation, in the areas of billing compliance, environmental health and safety, equal opportunity employment practices, fraud and abuse and

- medical quality assurance, based on reports rendered no less than annually by management, including the Company's Compliance Officers.
2. Monitoring of the Corporation's implementation of actions in response to legislative, regulatory and legal developments affecting the business of the Corporation.
  3. Report to the Audit Committee regarding legal, risk and underwriting compliance with regulatory requirements that may have material effect on the Corporation's business, financial statements or compliance policies, including any material reports or inquiries from regulatory or government agencies, or the Insurance Commission.
  4. Monitoring of significant external and internal investigations of the Corporation's business as they relate to possible violation of law by the Corporations directors, officers, employees or agents.
  5. Necessary modifications to the Corporate Compliance Program;
  6. Periodically asses the Corporation's compliance and associated risks;
  7. Promote and enforce standards through incentive and disciplinary action; and,
  8. Efforts made to promote an ethical culture.

The Committee shall conduct meetings for at least four (4) time a year.

Reporting and Evaluation.

The Committee shall conduct an annual evaluation of its effectiveness. It shall review and reassess its Charter on a periodic basis and submit any recommended changes to the Board for its consideration. The Committee shall perform such other functions and have such other powers as may be necessary or convenient for its efficient discharges of its duties.

## **X. COMMITMENT TO GOOD CORPORATE GOVERNANCE**

The Management Committee and the Board of Directors undertakes to strictly comply and adheres to raise its corporate governance standards and best practices in accordance with ASEAN Corporate Governance Guidelines, and Regional and Global Standards.

The rules shall be embodied in a manual that can be used as guide and reference by the members of the Board and Management. This manual shall be submitted to the

Insurance Commission as required. The same shall be made available for inspection by any stockholder or shareholders.

Because of the efforts in the information campaign by the Corporate Governance Office (Committee), progression from general awareness to full compliance and eventually, an entrenched culture of good governance through conscientious disclosure and practice of responsibilities, from Top Management to the ranks within the Company, became a possibility. In the years to come, Corporate Governance Committee will continue to explore not only advance but ingenious communication channels through which corporate governance can further engender or inculcate in the workplace and become not only a norm but a culture, a distinct Commonwealth Insurance way.

## **XI. REGULAR REVIEW OF MANUAL**

To monitor the compliance of the corporation, this manual shall be subject to periodic review by the Board or as soon as the need arises taking into consideration the changes and development of insurance business and industry, and whenever required by the Commission.

## **XII. ADMINISTRATIVE SANCTIONS**

To strictly observe and implement the provisions of this manual, violation thereof or non-compliance shall be subject to penalty. After due notice and opportunity to be heard, as may be determined by the Board, the following penalties shall be imposed:

- 1.) For first violation, reprimand;
- 2.) For second violation, suspension from office; and,
- 3.) For third violation, removal from office.

The Compliance Officer shall assist the Board on this matter and shall report to the Corporate Governance Committee any data suggesting significant non-compliance that could affect the Compliance Program or the Corporation. Any data suggesting significant non-compliance involving any of the business operations of the company shall be reported to the Board immediately.