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## INTRODUCTION

Pursuant SEC Memo Circular No. 31 Series of 2005 with corresponding amendment based on SEC Memo Circular No. 9 Series of 2014 to institute corporate governance reforms in order to achieve policyholder and market investor confidence, sustain the growth of the insurance industry, thereby contributing to the country's economic well-being, the Board of Directors, the management, officers and staff of MB Life Insurance Corporation hereby commits themselves to principles and best practices contained in this Manual.

## OBJECTIVE

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

The Board of Directors and Management, employees and shareholders, 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.

## DEFINITION OF TERMS

### Corporate Governance

Corporate Governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized. It is a framework of rules, systems and processes in the corporation that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates.

### 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 properties of such corporations.

### 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.

## Executive Director

Refers to a director who is at the same time appointed to head a department/unit within the corporate organization.

## Non-Executive Director

Refers to a Board member with non-executive functions.

## Independent Director

Refers to a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having any relationship with the corporation, which could interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he should be independent of management and free from any business or other relationship that could materially interfere with the exercise of his independent judgment.

## Internal Control

Refers to the process effected by a company's Board of Directors, management and other personnel, designated 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 control policies.

## Internal Auditing

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

## 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 operation.

## Independence

Refers to that environment which allows the person to carry out his/her work freely and objectively.

## Stakeholders

Refers to the group of company owners, officers and employees, Policy holders, suppliers, creditors and the community.

## COMPLIANCE SYSTEM

### Compliance Officer

To insure adherence to corporate principles and best practices, the Chairman of the Board shall designate a Compliance Officer who shall hold the position of a Vice President or its equivalent. He shall have direct reporting responsibilities to the Chairman of the Board.

He shall perform the following duties:

- Monitor compliance with the provisions and requirements of this Manual;
- Appear before the Securities and Exchange Commission upon summon on similar matters that need to be clarified by the same;
- Determine violation/s of the Manual and recommend penalty for violation thereof for further review and approval of the Board;
- Issue a certification every January 30<sup>th</sup> of the year on the extent of the Corporation's compliance with this Manual for the completed year, explaining the reason/s of the latter's deviation from the same; and
- Identify, monitor and control compliance risks.
- The appointment of the compliance officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C. All correspondence relative to his functions as such shall be addressed to the said Officer.

### Plan of Compliance

#### Board of Directors

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

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

shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

### *General Responsibility*

A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability and fairness.

### *Specific Duties and Functions*

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

- Install a process of selection to ensure a mix of competent directors and officers.
- Determine the Corporation's purpose, its vision and mission and strategies to carry out its objectives.
- Ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices;
- Identify the Corporation's major and other stakeholders and formulate a clear policy on communicating and relating with them through an effective investor relations program;
- Adopt a system of internal checks and balances;
- Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted; and
- Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulation.

### *Duties and Responsibilities of a Director*

- To conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions;
- To devote time and attention necessary to properly discharge his duties and responsibilities;
- To act judiciously;
- To exercise independent judgement;
- To have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Commission, and where applicable, the requirements of other regulatory agencies.
- To observe confidentiality;
- To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.

## Board Committees

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

### *Nomination Committee*

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

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

#### Qualifications

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

#### Disqualifications

- Any person finally convicted judicially of an offense involving moral turpitude or fraudulent act or transgressions;
- Any person finally found by the Commission or 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;
- Any person judicially declared to be insolvent;
- 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 the foregoing paragraphs; and
- Conviction by final judgement of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.



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

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

In consultation with the executive or management committee/s, re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.

The Nomination Committee shall consider the following guidelines in the determination of the number of directorships for the Board:

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

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

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

### *Compensation and Remuneration Committee*

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

#### Duties and Responsibilities

- Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy and control environment.
- Designate amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the company successfully.
- 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.
- Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements of all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.
- Disallow any director to decide his or her own remuneration.
- Provide in the Corporation's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year.
- Review (if any) of 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 of personnel concerned with all statutory requirements that must be periodically met in their respective posts.
- Or in the absence of such Personnel Handbook, cause the development of such, covering the same parameters of governance state above.

### *Audit Committee*

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

#### Duties and Responsibilities

- Check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.
- Perform oversight financial management functions specifically in the area of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management.

- Pre-approved all audit plans, scope and frequency one (1) month before the conduct of external audit.
- Perform direct interface functions with the internal and external auditors.
- Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following in relation to this reform:
  - a. A definitive timetable within which the accounting system of the Corporation will be 100% International Accounting Standard (IAS) compliant.
  - b. An accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.
- Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the company through a step-by-step procedures and policies handbook that will be used by the entire organization.

### *The Corporate Secretary*

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

The Corporate Secretary shall be a Filipino citizen.

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

### Duties and Responsibilities

Gather and analyze all documents, records and other information essential to the conduct of his duties and responsibilities to the Corporation.

As to agenda, get a complete schedule thereof at least for the current year and put the Board on notice before every meeting.

Assist the Board in making business judgement in good faith and in the performance of their responsibilities and obligations.

Attend all Board meetings and maintain record of the same.

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

### *External Auditor*

An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the company, an external auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.

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.

The external auditor of the company shall not at the same time provide the services of an internal auditor to the same client. The Corporation shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.

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

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

### *Internal Auditor*

The Corporation shall have in place an independent internal audit function which shall be performed by an internal Auditor or a group of internal Auditors, through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.

The Internal Auditor shall report to the Audit Committee.

The minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Corporation's organizational and procedural controls.

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

## COMMUNICATION PROCESS

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 under the supervision of HRD, with a minimum of a least one (1) hard copy of the Manual per department.

## TRAINING PROCESS

If necessary, funds shall be allocated by the CFO or its equivalent officer for the purpose of conducting an orientation program or workshop to operationalize this Manual.

A director shall, before assuming as such, be required to attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institute.

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

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

All material information, anything that could potentially affect share price, shall be publicly disclosed. Such information shall include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership.

Other information that shall always be disclosed includes remuneration (including stock options) of all directors and senior management corporate strategy, and off balance sheet transactions.

All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report.

The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the stakeholders.

## SHAREHOLDER'S BENEFIT

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

### Investor's Rights and Protection

#### Rights of Investors / Minority Interests

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

#### Voting Right

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

Cumulative voting shall be used in the election of directors.

A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

#### Re-emptive Right

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

#### Power of Inspection

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

## 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 company's shares, dealings with the company, relationships among directors and officers.

The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes."

## Right to Dividends

Shareholders shall have the right to receive dividends subject to the discretion of the Board.

The company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

## Appraisal Right

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

- In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

- In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- In case of merger or consolidation

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

## **MONITORING AND ASSESSMENT**

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 8 of this Manual.

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

This Manual shall be subject to quarterly review unless the same frequency is amended by the Board.

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

## **PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL**

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

- In case of first violation, the subject person shall be reprimanded.



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

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

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