

CORPORATE GOVERNANCE MANUAL

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I. INTRODUCTION

This Manual shall be known as the *Corporate Governance Manual of Caritas Health Shield, Inc. (CHSI)*.

It shall serve as reference or guide for the Corporation in the implementation of Insurance Commission Memorandum Circular No. 2020-71 Revised Code of Corporate Governance for Insurance Commission regulated Companies and other relevant references.

The Board of Directors (the Board), Management and Officers of the Corporation hereby commit themselves to the principles and practices contained in this Manual and acknowledge that the same will guide them in the performance of their respective duties and responsibilities to stockholders and other stakeholders and in the development and achievement of CHSI's corporate goals.

This manual shall be available for inspection by any stockholder of CHSI at its principal office during reasonable hours on business days.

II. DEFINITION OF TERMS¹

<i>Corporate Governance</i>	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 stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates ² ;
<i>Board of Directors</i>	the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties;
<i>Management</i>	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;
<i>Independent Director</i>	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 reasonable be perceived to, materially interfere with his exercise of independent judgment in carry out his responsibilities as a director.
<i>Executive Director</i>	a director who is also the head of a department or unit of the Corporation or performs any work related to its operation.
<i>Non-executive Director</i>	a director who is not the head of a department or unit of the Corporation nor performs any work related to its operation;
<i>Non-audit work</i>	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;
<i>Internal Control</i>	the system established by the Board of Directors and Management for the accomplishment of the 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;

¹SEC Memo Cir. No. 6, s2009

² As amended by SEC Memo Cir. No. 9, s2014

<i>Internal Audit Department</i>	a department or unit of the Corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the Corporation's operations;
<i>Internal Auditor</i>	the highest position in the Corporation 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.
<i>Enterprise Risk Management</i>	a process, effected by an entity's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.
<i>Related Party Transactions</i>	a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
<i>Shareholder</i>	refers to an owner of a share of stock in a company
<i>Stakeholders</i>	any individual, organization or society at large who can either affect and/or be affected by the company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.

III. GOVERNANCE STRUCTURE

A. Board of Directors

A.1. Composition of the Board³

The Board shall be composed of fifteen⁴(15) members, a majority of non-executive directors and at least three (3) of whom or twenty percent are independent directors, who are elected by the stockholders.

The membership of the Board shall be a right combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision-making process.

The Board should be composed of directors with a collective working knowledge, experience or expertise that is relevant to the company's industry. The Board should always ensure that it has an appropriate mix of competence and expertise and that its members coming remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

The Board should be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on company affairs and to substantiate proper checks and balances.

The Board should promote board diversity to ensure for a more effective decision making and inclusion of different perspective and ideas, representation of corporate responsible citizens and for better utilization of knowledge and experience.

A.2. Responsibilities, Duties and Functions of the Board⁵

A.2.1. General Responsibility

It is the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders⁶.

The Board should 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.

³ SEC Memo Cir. No. 6, s2009

⁴ CHSI Articles of Incorporation

⁵ SEC Memo Cir. No. 6, s2009

⁶ SEC Memo Cir. No. 9, s2014

The Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and all shareholders.

The Board should oversee the development of and approve the company's business objectives and strategy, and monitor their implementation, in order to sustain the company's long-term viability and strength.

A.2.2. Specific Duties and Functions

To ensure a high standard of best practice for the Corporation, its stockholders and other stakeholders, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- a. Develop and implement a policy for the selection, nomination and election of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly motivated management officers. Adopt an effective succession planning program for directors, key officers and management to ensure growth and a continued increase in the shareholders' value which shall include a policy on the retirement age for directors and key officers to promote dynamism in the company.
- b. Provide sound strategic policies and guidelines to the Corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance;
- c. Ensure the Corporation's faithful compliance with all applicable laws, regulations and codes of best business practices;
- d. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the corporation. If feasible, the corporation's CEO or chief financial officer shall exercise oversight responsibility over this program;
- e. Identify the Corporation's stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them;
- f. Adopt a system of internal checks and balances within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the corporation's internal control system in order to maintain its adequacy and effectiveness;
- g. Oversee that a sound enterprise risk management 15 (ERM) framework is in place to effectively identify, monitor, assess and manage key business risks. 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;

- h. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board;
- i. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities; Approve the Internal Audit Charter;
- j. Formulate and adopt a policy specifying the relationship between remuneration and performance of key officers and board members which should be aligned with the long-term interests of the company. No director should participate in discussions or deliberations involving his own remuneration;
- k. Primarily responsible for approving the selection and assessing the performance of the Management led by the Chief Executive Officer (CEO), and control functions led by their respective heads (Chief Risk Officer, Chief Compliance Officer, and Chief Audit Executive).
- l. Establish an effective performance management framework that will ensure that the Management, including the Chief Executive Officer, and personnel's performance is at par with the standards set by the Board and Senior Management.
- m. 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;
- n. Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration;
- o. Keep the activities and decisions of the Board within its authority under the Articles of Incorporation, By-Laws, and in accordance with existing laws, rules and regulations.
- p. Appoint a Compliance Officer who shall have the rank of at least vice president.
- q. Conduct an annual assessment of its performance, including the performance of the Chairman, individual members and committees. Every three years, the assessment may be supported by an external facilitator.
- r. Should have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, committees and such system should allow for a feedback mechanism from the shareholders.
- s. Should adopt a Code of Business Conduct and Ethics, which would provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct

and practices in internal and external dealings. The Code should be properly disseminated to the Board, senior management and employees. It should also be disclosed and made available to the public through the company website. To ensure proper compliance with the Code, appropriate orientation and training of the Board, senior management and employees on the same are necessary; and

- t. Should ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.

A.2.3. Internal Control Responsibilities of the Board⁷

The control environment of the corporation consists of (a) the Board which ensures that the corporation is properly and effectively managed and supervised; (b) a Management that actively manages and operates the corporation in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management reporting systems; and (d) an independent audit mechanism to monitor the adequacy and effectiveness of the corporation's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

- a. The minimum internal control mechanisms for the performance of the Board's oversight responsibility may include:
 - 1. Definition of the duties and responsibilities of the CEO who is ultimately accountable for the corporation's organizational and operational controls;
 - 2. Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
 - 3. Evaluation of proposed senior management appointments;
 - 4. Selection and appointment of qualified and competent management officers;
 - 5. Establish an effective performance management framework that will ensure that the Management, including the Chief Executive Officer, and personnel's performance is at par with the standards set by the Board and Senior Management; and
 - 6. Review of the corporation's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.
- b. The scope and particulars of the systems of effective organizational and operational controls may differ among corporations depending on, among others, the following factors: nature and complexity of the business and the business culture; volume, size and complexity of transactions; degree of risks involved; degree of centralization and

⁷ SEC Circular No. 6, s2009

delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.

- c. A corporation may establish an internal audit system that can reasonably assure the Board, Management and stockholders that its key organizational and operational controls are faithfully complied with. The following are the functions of the internal audit, among others:
 - 1. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
 - 2. Performs regular and special audit as contained in the annual audit plan and/or based on the company's risk assessment;
 - 3. Performs consulting and advisory services related to governance and control as appropriate for the organization;
 - 4. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
 - 5. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the company;
 - 6. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
 - 7. Evaluates specific operations at the request of the Board or Management, as appropriate; and
 - 8. Monitors and evaluates governance processes
- d. The Board may appoint a Chief Audit Executive (CAE) to perform the audit function, and may require him to report to a level in the organization that allows the internal audit activity to fulfill its mandate. The Internal Auditor shall be guided by the International Standards on Professional Practice of Internal Auditing. The following are the responsibilities of the CAE, among others:
 - 1. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;

2. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;
 3. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
 4. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
 5. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
 6. Presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.
- e. A corporation may establish a separate risk management function to identify, assess and monitor key risk exposures. The risk management function involves the following activities, among others:
1. Defining a risk management strategy;
 2. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization's strategic objectives;
 3. Evaluating and categorizing each identified risk using the company's predefined risk categories and parameters;
 4. Establishing a risk register with clearly defined, prioritized and residual risks;
 5. Developing a risk mitigation plan for the most important risks to the company, as defined by the risk management strategy;
 6. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and
 7. Monitoring and evaluating the effectiveness of the organization's risk management processes.
- f. The Board may appoint a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities, subject to a company's size, risk profile and complexity of operations.

1. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
2. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;
3. Collaborates with the CEO in updating and making recommendations to the Board Risk Oversight Committee;
4. Suggests ERM policies and related guidance, as may be needed; and
5. Provides insights on the following:
 - Risk management processes are performing as intended;
 - Risk measures reported are continuously reviewed by risk owners for effectiveness; and
 - Established risk policies and procedures are being complied with
 - There should be clear communication between the Board Risk Oversight Committee and the CRO.

A.3. Stockholders' Rights and Protection of Minority Stockholders' Interests

The Corporation recognizes that the most cogent proof of good 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 Corporation and its investors:

A.3.1. The Board shall be committed to respect the rights of the stockholders as provided for in the Corporation Code, namely:

- a. Right to vote on all matters that require their consent or approval;

Stockholders are also encouraged to participate when given sufficient information prior to voting on fundamental corporate changes such as: (1) amendments to the Articles of Incorporation and By-Laws of the company; (2) the authorization on the increase in authorized capital stock; and (3) extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the company.

- b. Pre-emptive right to all stock issuances of the corporation;

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.

- c. Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting

- d. Right to nominate candidates to the Board of Directors;

All shareholders must be given the opportunity to nominate candidates to the Board of Directors in accordance with the existing laws.

- e. Nomination process

All shareholders must be given the opportunity to nominate candidates to the Board of Directors in accordance with the existing laws.

The procedures of the nomination process are expected to be discussed clearly by the Board to promote transparency. The company is encouraged to fully and promptly disclose all information regarding the experience and background of the candidates to enable the shareholders to study and conduct their own background check as to the candidates' qualification and credibility.

- f. Right to inspect corporate books and records;

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.

- g. 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.

- h. Right to Dividends

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

The Corporation 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.

i. 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:

1. 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;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or their disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code.

A.3.2. In case of merger or consolidation, it shall be the duty of Directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting 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. The shareholders shall participate in meetings and/or vote 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. 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 to the requirements of the bylaws, 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.

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

The Board should take the 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.

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.

A.4. Board Meetings and Quorum Requirements

The members of the Board should attend its regular and special meetings in person or through teleconferencing conducted in accordance with the rules and regulations of the Commission.

Independent directors should always attend Board meetings but their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one independent director in all its meetings.

To monitor the directors' compliance with the attendance requirements, the Corporation shall submit to the Commission, on or before January 30 of the following year, a sworn certification about the directors' record of attendance in Board meetings through SEC Form 17-C.

A majority of the number of directors shall constitute a quorum for the transaction of corporate business and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.

The Board should encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 21 days before the meeting.

The Board should encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting may be available on the company website within Five (5) business days from the end of the meeting.

A.5. Duties to Stakeholders

- a. The Board should identify the company's various stakeholders and promote cooperation between them and the company in creating wealth, growth and sustainability.
- b. The Board should establish policies to provide a mechanism on the fair treatment and protection of stakeholders.
- c. The Board should adopt a transparent framework and process that allow stakeholders to communicate with the company and to obtain redress for the violation of their rights.
- d. The Board should establish procedures that encourage employees to actively participate in the realization of the company's goals and in its governance.
- e. The Board should set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct. Further, the Board should disseminate the policy and program to employees across the organization through trainings to embed them in the company's culture.

B. Directors

B.1. Qualifications of a Director⁸

In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications which include, among others, the following:

- 1.1. College education or equivalent academic degree;
- 1.2. Practical understanding of the business of the corporation;
- 1.3. Membership in good standing in relevant industry, business or professional organizations;
and
- 1.4. Previous business experience.

B.2. Independent Directors⁹

B.2.1. Independent director includes, among others, any person who:

- a. is not or was not a regular director, officer or employee of the covered entity, its subsidiaries, affiliates or related companies during the past three (3) years counted from the date of his election/appointment;
- b. is not or was not a regular director, officer, or employee of the covered entity's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
- c. is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the covered entity, or in any of its related companies or of its majority corporate shareholders;
- d. is not a relative by affinity or consanguinity within the fourth (4th) degree of a director, officer, or stockholder holding shares of stock sufficient to elect one (1) seat in the board of the covered entity or any of its related companies or of any of its substantial stockholders;
- e. is not acting as a nominee or representative of any director or substantial shareholder of the covered entity, any of its related companies or any of its substantial shareholders;

⁸SEC Memo Cir. No. 6, s2009

⁹ SEC Memo Cir. No. 6, s2009

IC CL2018-36

- f. is not or was not retained as professional adviser, auditor, consultant, agent or counsel of the covered entity, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election/appointment;
- g. is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the covered entity or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;
- h. was not appointed in the covered entity, its subsidiaries, affiliates or related companies as Chairman "Emeritus", "Ex-Officio", Regular 26 Directors, Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his election/appointment;
- i. is not affiliated with any non-profit organization that receives significant funding from the covered entity or any of its related companies or substantial shareholders; and,
- j. is not employed as an executive officer of another company where any of the covered entity's executives serve as regular directors.

Related company refers to (a) the covered entity's holding/parent company; (b) its subsidiary or affiliate; (c) subsidiaries of its holding/parent company; or (d) a corporation where a covered entity or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

B.2.2 Limits for Independent Directors¹⁰

- a. Independent Directors can serve as such for a maximum cumulative term of nine (9) years. The reckoning date of such period shall be in accordance to the reckoning dates provided by IC Circular 2018-36
- b. An Independent Director who served the maximum period shall be perpetually banned from any re-election but may continue therein as a non-independent director.
- c. In the instance that a company wants to retain an independent director who has served for nine years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

¹⁰ IC CL 2018-36

B.3. Non-Executive Director

- 3.1 The non-executive directors of the Board should concurrently serve as directors to a maximum of five (5) Insurance Commission Regulated Entities and Publicly Listed Companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long term strategy of the company.
- 3.2 The non-executive directors (NEDs) should have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the corporation. The meetings should be chaired by the lead independent director.

B.4. Specific Duties and Responsibilities of a Director¹¹

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

A director should observe the following norms of conduct:

- 4.1 Conduct fair business transactions with the Corporation and ensure that his personal interest does not conflict with the interests of the Corporation.

The basic principle to be observed is that a director should not use his position to profit or gain some 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 may arise on the part of a director, or if a director has material interest in any transaction affecting the corporation, he should fully and immediately disclose it and should abstain and not participate in the deliberations and decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position. A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the corporation, or stands to acquire or gain financial advantage at the expense of the corporation.

- 4.2 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 and knowledgeable with the Corporation's operations to enable him to meaningfully contribute to the Board's work. He should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation.

A director should notify the Board where he/she is an incumbent director before accepting a directorship in another company.

¹¹ SEC Memo Cir. No. 6, s2009

4.3 Act judiciously.

Before deciding on any matter brought before the Board, a director should carefully evaluate the issues and, if necessary, make inquiries and request clarification.

4.4 Exercise independent judgment.

A director should view each problem or situation objectively. If a disagreement with other directors arises, he should carefully evaluate and explain his position. He should not be afraid to take an unpopular position. Corollarily, he should support plans and ideas that he thinks are beneficial to the Corporation.

4.5 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 and regulations of the Commission, and where applicable, the requirements of other regulatory agencies.

A director should also keep abreast with industry developments and business trends in order to promote the Corporation's competitiveness.

4.6 Observe confidentiality.

A director should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He should not reveal confidential information to unauthorized persons without the authority of the Board.

B.5. Election of Directors

The Board of Directors shall be elected during each regular meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified.¹²

B.6. Disqualification of Directors¹³

B.6.1. Permanent Disqualification

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

- a. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that:
 - 1) involves the purchase or sale of securities, as defined in the Securities Regulation Code;

¹² Art. III, Section 2, CHSI By-laws

¹³ SEC Memo Cir. No. 6, s2009

- 2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or
- 3) arises out of his fiduciary relationship with a bank, quasi-bank, trust

Corporation, investment house or as an affiliated person of any of them; b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from:

- 1) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;
- 2) acting as director or officer of a bank, quasi-bank, trust Corporation, investment house, or investment Corporation;
- 3) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs 1) and 2) above, or willfully violating the laws that govern securities and banking activities.

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

- c. Any person convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as fraud, embezzlement, swindling and theft, estafa, extortion, malversation, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- d. Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;
- e. Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;
- f. Any person judicially declared as insolvent, spendthrift or unable to enter into a contract

- g. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in subparagraphs (a) to (e) above;
- h. Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.
- i. Persons who have been convicted by final judgment of the court for violation of Insurance laws; or
- j. Directors, officers or employees of closed insurance companies or any insurance intermediaries who were responsible for such institution's closure as determined by the Insurance Commission

B.6.2. Temporary Disqualification

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

- a. Refusal to fully disclose the extent of their business interests and comply with the disclosure requirements pursuant to a provision of law or of a circular, memorandum or rule or regulation of the Insurance Commission . The disqualification shall be in effect as long as the refusal persists.
- b. Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.. The disqualification shall apply for purposes of the succeeding election.
- c. Persons convicted for offenses involving dishonesty, breach of contract or violation of insurance laws but whose conviction has not yet become final and executory;
- d. Dismissal or termination for cause as director of any corporation covered by this Code. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.
- e. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.
- f. Directors and officers of closed insurance companies and insurance intermediaries pending clearance from the Insurance Commission;
- g. Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification of the Insurance Commission;

- h. Directors who failed to attend the special seminar on corporate governance. This disqualification applies until the director concerned had attended such seminar;
- i. Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity;
- j. Those under preventive suspension;
- k. Persons with derogatory records with the NBI, court, police, Interpol and insurance authorities of other countries (for foreign directors) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of an insurance director. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity;
- l. Persons who are delinquent in the payment of their obligations as defined hereunder:
 - 1. Delinquency in the payment of obligations means that obligations of a person with the insurance company or its related companies where he/she is a director or officer; or at least two obligations with other insurance companies, under different credit lines or loan contracts;
 - 2. Obligations shall include all borrowings from an insurance company, or its related companies obtained by:
 - 2.1 A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorsers, or surety for loans from such institutions;
 - 2.2 The spouse or child under the parental authority of the director or officer;
 - 2.3 Any person whose borrowings or loan proceeds were credited to the amount of, or used for the benefit of a director or officer;
 - 2.4 A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
 - 2.5 A corporation, association or firm wholly owned or majority of the capital is contributed by any or a group of persons mentioned in the foregoing items 1,2, and 4.

This disqualification should be in effect as long as the delinquency persists.

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

B.7. Removal Procedures

- 7.1 A director may be removed from office by a vote of the stockholders holding or representing at least two-thirds ($\frac{2}{3}$) of the outstanding capital stock.
- 7.2 The removal shall take place either at the regular stockholder's meeting or at a special meeting called for the purpose, and in either case, after previous notice to stockholders of the intention to propose such removal at the meeting.
- 7.3 The Corporate Secretary shall call a special meeting, on order of the President or on the written demand of the stockholders representing or holding at least a majority of the outstanding capital stock for the purpose of removal of a director. Should the Corporate Secretary fail or refuse to call the special meeting upon such demand or fail or refuse to give the notice, or if there is no secretary, the call for the meeting shall be addressed directly to the stockholders by any stockholder signing the demand. Notice of the time and place of such meeting, as well as of the intention to propose such removal, must be given by publication or by written notice prescribed in the Corporation Code of the Philippines. Removal may be with or without cause: provided that removal without cause may not be used to deprive minority stockholders the right of representation to which they may be entitled under Section 24 of the Corporation Code of the Philippines.
- 7.4 A director removed from office is not eligible to seek re-election and/or be reappointed to the Board unless a written consent is obtained from stockholders holding or representing at least two thirds ($\frac{2}{3}$)of the outstanding capital stock.

B.8. Vacancies in the Office of a Director¹⁴

Any vacancy occurring in the Board of Directors other than by removal by the stockholders or by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, otherwise, the vacancy must be filled by the stockholders at a regular or at any special meeting of stockholders called for the purpose. A director so elected to fill a vacancy shall be elected only for the unexpired term of his predecessor in office.

The vacancy resulting from the removal of a director by the stockholders in the manner provided by laws may be filled by election at the same meeting of stockholders without further notice, or at any regular or at any special meeting of stockholders called for the purpose, after giving notice.

B.9. Corporate Governance Orientation and Annual Trainings¹⁵

Consistent with the national objective to institutionalize corporate accountability of insurers, all Directors/Trustees of insurance companies as well as Officers with a rank of Vice President and up are required to attend a training and orientation course on Corporate Governance conducted by duly accredited training providers of the Insurance Commission.

¹⁴ Art. 2, Sec 3, CHSI By-laws

¹⁵ IC Circular No. 12, s2004

Such requirement must be completed within the first six (6) months of the Directors/Officers' assumption to office and with the corresponding proof of compliance furnished the Insurance Commission.

The annual continuing training program, on the other hand, makes certain that the directors are continuously informed of the developments in the business and regulatory environments, including emerging risks relevant to the company. It involves courses on corporate governance matters relevant to the company, including audit, internal controls, risk management, sustainability and strategy.

IC - mandated topics on corporate governance include the following:

- a. Code of Corporate Governance for IC Regulated Companies;
- b. ACGS and IC Annual Corporate Governance Report;
- c. Board Responsibilities;
- d. Illegal activities of corporations/ directors/officers;
- e. Protection of minority shareholders;
- f. Liabilities of directors;
- g. Confidentialities;
- h. Conflict of interest;
- i. RPT;
- j. Enterprise Risk management; and
- k. Case studies and Financial Reporting and Audit.

Other than the Corporate Governance training, orientation program for first-time directors should be conducted for at least eight hours, while the annual continuing training be for at least four hours. All directors should be properly oriented upon joining the board. This ensures that new members are appropriately apprised of their duties and responsibilities, before beginning their directorships. The orientation program covers IC-mandated topics on corporate governance and an introduction to the company's business, Articles of Incorporation, and Code of Conduct. It should be able to meet the specific needs of the company and the individual directors and aid any new director in effectively performing his or her functions.

B.10. Multiple Board Seats¹⁶

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

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

¹⁶ SEC Memo Cir. No. 6, s2009

Service on too many boards can interfere with the performance of board members. A director shall exercise due discretion in accepting and holding directorships outside of the Caritas Group. A director may hold a maximum of five (5) directorships outside of the Caritas Group provided that, in the director's opinion, these other positions do not detract from the director's capacity to diligently and efficiently perform his duties and responsibilities as a director of the Corporation.

B.11. Reportorial Requirements

B.11.1. Bio-Data of Directors and Officers¹⁷

The Corporation shall submit to the Insurance Commission the bio-data of the members of the Board of Directors within thirty (30) days after the election of the Director concerned.

A list of Officers, as defined in the Companies' by-laws, stating their respective positions and/or designations with their respective bio-data shall likewise be submitted to the Insurance Commission within thirty (30) days from their appointment/promotion.

Any subsequent change in the bio-data shall be submitted within thirty (30) days from the date when such change occurs.

B.11.2. List of Independent Directors and their Affidavits¹⁸

The Corporation shall submit the list of Independent Directors and their affidavits under oath stating that they have no business dealings with the Corporation within thirty (30) days after the election of the Independent Director.

B.11.3. GIS¹⁹

A copy of the GIS shall likewise be furnished to the Insurance Commission within five (5) days from submission to the SEC.

B. 11.4. Certificate of Attendance of Corporate Governance Orientation

The Corporation shall submit the Certificate of Attendance of Officers and members of the Board in a program on Corporate Governance conducted by training providers duly accredited by the Insurance Commission within ten (10) working days from the completion of the program.

B.12. Lead Director

The Board should designate a lead director among the independent directors if the Chairman of the Board is not independent, including if the positions of the Chairman of the Board and Chief Executive Officer are held by one person.

¹⁷ IC Circular No. 35, s2006

¹⁸ IC Circular No. 35, s2006

¹⁹ IC Circular No. 19, s2015

The functions of the lead director include, among others, the following:

- a. Serves as an intermediary between the Chairman and the other directors when necessary;
- b. Convenes and chairs meetings of the non-executive directors; and
- c. Contributes to the performance evaluation of the Chairman, as required.

C. Duties and Responsibilities of the Chairman of the Board and the President

The roles of Chair and CEO should be held by separate individuals and each should have clearly defined responsibilities to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board. A clear delineation of functions should be made between the Chair and CEO upon their election.

C.1. Duties and responsibilities of the Chair.

The duties and responsibilities of the Chair in relation to the Board include, among others, the following²⁰:

1. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
2. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
3. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
4. Ensure that the meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary;
5. Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations
6. Maintain qualitative and timely lines of communication and information between the Board and Management.

²⁰ Sec. Circular No. 6, s2009

7. Ensures that the Board sufficiently challenges and inquires on the reports submitted and representations made by the Management;
8. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
9. Make sure that the performance of the Board is evaluated at least once a year and discussed/ follow up on.

C.2. The Chief Executive Officer's functions.

The Chief Executive Officer shall exercise the following functions:

1. To preside at the meetings of the stockholders
2. To initiate and develop corporate objectives and policies and formulate long-range projects, plans and programs for the approval of the Board of Directors, including those of executive training, development and compensation
3. To supervise and manage the business affairs of the Corporation upon the direction of the Board of Directors;
4. To implement the administrative and operational policies of the Corporation under his supervision and control;
5. To appoint, remove, suspend or discipline employees of the Corporation, prescribe their duties and determine their salaries;
6. To oversee the preparation of the budgets and the statements of accounts of the Corporation
7. To represent the Corporation at all functions and proceedings;
8. To execute on behalf of the Corporation all contracts, agreements and other instruments affecting the interests of the Corporation which require the approval of the Board of Directors;
9. To make reports to the Board of Directors and stockholders;
10. To sign certificates of stock; and
11. To perform such other duties as are incident to this office or are entrusted to him by the Board of Directors.
12. Determines the corporation's strategic direction and formulates and implements its strategic plan on the direction of the business;
13. Communicates and implements the corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;

14. Oversees the operations of the corporation and manages human and financial resources in accordance with the strategic plan;
15. Has a good working knowledge of the corporation's industry and market and keeps up-to-date with its core business purpose;
16. Directs, evaluates and guides the work of the key officers of the corporation;
17. Manages the corporation's resources prudently and ensures a proper balance of the same;
18. Provides the Board with timely information and interfaces between the Board and the employees;
19. Builds the corporate culture and motivates the employees of the corporation; and
20. Serves as the link between internal operations and external stakeholders.

D. Board Committees

To aid in complying with the principles of good governance, the Board shall constitute the Audit Committee, Nomination Committee and Remuneration Committee.

D.1. Audit Committee

- 1.1. The Audit Committee shall be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom including the Chairmann should be independent who shall have accounting and finance backgrounds, or an adequate understanding at least or competence at most of the Corporation's financial management systems and environment. The Chairman of the Audit Committee should not be the chairman of the Board or of any other committees.
- 1.2. The Committee shall have the following functions.
 - a. Recommends the approval the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter;
 - b. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the corporation's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, protect the accuracy and reliability of the company's financial data, and (d) ensure compliance with applicable laws and regulations;
 - c. Perform oversight over Management's activities in managing credit, market, liquidity, and other risks of the Corporation. This function shall include regular receipt from Management of information on risk exposures and risk management activities.

- d. Perform oversight functions over the Corporation's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- e. 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;
- f. Prior to the commencement of the audit, discusses with the external auditor the nature, scope and expenses of the audit, and ensures the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- g. Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- h. Review the interim and annual financial statements before their submission to the Board, with particular focus on the following matters:
 - 1. Any change/s in accounting policies and practices
 - 2. Areas where a significant amount of judgment has been exercised
 - 3. Significant adjustments resulting from the audit
 - 4. Going concern assumptions
 - 5. Compliance with accounting standards
 - 6. Compliance with tax, legal and regulatory requirements.
- i. Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, including financial reporting control and information technology security;
- j. Review the reports submitted by the internal auditors;
- k. Reviews the disposition of the recommendations in the External Auditor's management letter;
- l. Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- m. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total fees paid to him and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the corporation's annual report and Annual Corporate Governance Report;
- n. Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee. The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.
- o. Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Corporation through a step-by-step procedure and policies handbook that will be used by the entire organization.
- p. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an

- independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders;
- q. Review the firm of external auditor's compensation, the proposed terms of its engagement (e.g. the scope and plan of the forthcoming audit), the non-audit activities for which it is engaged.
 - r. Consider, in consultation with the external auditors and the internal audit executive, if any, the adequacy of the Corporation's internal controls.
 - s. Consider, major changes and other major questions of choice respecting the appropriate accounting principles to be used in the presentation of the corporation's financial statements, when presented by the external auditors, or the management
 - t. In case the company has yet to have a Board Risk Oversight Committee and/or Related Party Transactions Committee, performs the functions of said committees.

The Audit Committee meets with the Board at least every quarter without the presence of the CEO or other management team members, and periodically meets with the head of the internal audit.

D.2. Remuneration Committee

- 2.1. The Remuneration committee shall be composed of at least three (3) members, one of whom must be an independent director.
- 2.2. The Remuneration Committee shall establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates. Remuneration should also be evaluated in relation to improvement in performance.
- 2.3. It shall recommend and monitor the level and structure of salaries including remunerations of senior management. Senior management shall include first level management below the Board.
- 2.4. It shall consider the following key considerations in determining proper compensation: (1) the level of remuneration is commensurate to the responsibilities of the role; (2) no director should participate in deciding on his remuneration; and (3) remuneration pay-out schedules should be sensitive to risk outcomes over a multi-year horizon.

D.3. Nominations Committee

- 2.1. The Nominations committee shall be composed of at least three (3) members, one of whom shall be an independent director.
- 2.2. The Nominations committee shall review and evaluate the qualifications of all persons nominated to the Board of Directors as well as those nominated to other positions requiring appointment by the Board. It shall prepare a description of the roles and capabilities required of a particular appointment.

- 2.3. The nomination and election process should include the review and evaluation of the qualifications of all persons nominated to the Board, including whether candidates: (1) possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the entity's business and risk profile; (2) have a record of integrity and good repute; (3) have sufficient time to carry out their responsibilities; and (4) have the ability to promote a smooth interaction between board members.
- 2.4. For the appointment of Chairman, it should prepare a job description including an assessment of time commitment expected of him, recognizing the need for his availability in the event of crisis. The Chairman's other significant commitments shall also be disclosed to the Board before his appointment and included in the annual report.
- 2.5. The terms and conditions of appointment of non-executive directors shall be made available for inspection. The letter of appointment shall specify the expected time commitment and should undertake sufficient time to meet and do what is expected of him.

D.4. Related Party Transactions Committee

- 2.1. The Related Party Transactions Committee shall be composed of at least three non-executive directors majority of whom should be independent including the Chairman.
- 2.2. The Related Party Transactions Committee shall have the following functions:
 - a. Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;
 - b. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the company's affiliation or transactions with other related parties;
 - c. Reports 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;
 - d. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process;
 - e. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.
 - f. Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms (eg., price, commissions, interest rates, fees, tenor,

collateral requirement) to such related parties than similar transactions 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 reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:

1. The related party's relationship to the company and interest in the transaction;
2. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
3. The benefits to the corporation of the proposed RPT;
4. The availability of other sources of comparable products or services; and
5. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs;

D.5. Corporate Governance Committee

- 5.1 The Corporate Governance Committee shall be composed of at least three (3) members, majority of whom should be independent directors including the Chairman.
- 5.2 The Corporate Governance Committee (CG Committee) is tasked with ensuring compliance with and proper observance of corporate governance principles and practices. It has the following duties and functions, among others:
 - a. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the corporation's size, complexity and business strategy, as well as its business and regulatory environments;
 - b. Oversees the periodic performance evaluation of the Board and its committees as well as executive management, and conducts an annual self-evaluation of its performance;
 - c. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
 - d. Recommends continuing education/training programs for directors, assignment of tasks/projects to board committees, succession plan for the board members and senior officers, and remuneration packages for corporate and individual performance;
 - e. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
 - f. Proposes and plans relevant trainings for the members of the Board;
 - g. Determines the nomination and election process for the company's directors and has the special duty of defining the general profile of board members that the company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and

- h. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the corporation's culture and strategy as well as the business environment in which it operates.

D.6. Board Risk Oversight Committee (BROC)

The BROC should be composed of at least three members, the majority of whom should be independent directors, including the Chairman. The Chairman should not be the Chairman of the Board or of any other committee. At least one member of the committee must have relevant thorough knowledge and experience on risk and risk management.

The BROC has the following duties and responsibilities, among others:

- a. Develops a formal enterprise risk management plan which contains the following elements: (a) common language or register of risks, (b) well defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;
- b. Oversees the implementation of the enterprise risk management plan through a Management Risk Oversight Committee. The BROC conducts regular discussions on the company's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;
- c. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The BROC revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;
- d. Advises the Board on its risk appetite levels and risk tolerance limits;
- e. Reviews at least annually the company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the company;
- f. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the corporation and its stakeholders;
- g. Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management; and
- h. Reports to the Board on a regular basis, or as deemed necessary, the company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

E. Officers

E.1. Qualifications of Officers²¹

In order to maintain the quality of the management of the insurance companies and afford better protection to policyholders and the public in general, any person of good moral character, unquestioned integrity and recognized competence may be elected or appointed director or officer of insurance companies in accordance with the pertinent provisions contained in the corporate governance circulars prescribed by the Commissioner. In addition hereto, the Commissioner shall prescribe the qualifications of directors, executive officers and other key official of insurance companies for purposes of this section.

E.2. Disqualification of Officers

Persons who have been found guilty of complaints filed against them before the company, any administrative body, or court for committing any of the following²⁶ are permanently disqualified as Officers of the Corporation:

- 1.1. willfully violating any provisions of the Insurance Code;
- 1.2. intentionally making a material misstatement in his application to qualify as an officer or employee;
- 1.3. attempting fraud, misrepresentation or dishonest practices,
- 1.4. misappropriating or converting to his own use or illegally withholding moneys required to be held in fiduciary capacity;
- 1.5. not demonstrating trustworthiness and competence to transact business in such manner as to safeguard the public; or
- 1.6. materially misrepresenting the terms and conditions of policies or contracts of insurance which his company has sold.

E.3. Corporate Secretary²²

The Corporate Secretary, who should be a Filipino citizen and a resident of the Philippines, and should not be a member of the Board of Directors, is an officer of the Corporation. He should:

- 1.1. 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 the other official records of the Corporation;
- 1.2. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;
- 1.3. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;
- 1.4. Advises on the establishment of board committees and their terms of reference;

²¹Chapter III, Title 1, Sec. 191 of RA 10607 (The Insurance Code) ²⁶IC Circular No. 21, s2006

²² SEC Circular No. 6, s2009

- 1.5. Be loyal to the mission, vision and objectives of the Corporation;
- 1.6. Have appropriate administrative and interpersonal skills;
- 1.7. If he is not at the same time, the Corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- 1.8. Have a working knowledge of the operations of the Corporation
- 1.9. Inform the members of the Board, in accordance with the by-laws, of the agenda of their meetings at least 5 working days in advance and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- 1.10. Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so and maintain record of the same.
- 1.11. Ensure that all Board procedures, rules and regulations are strictly followed by the members; and
- 1.12. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements;
- 1.13. Annually attend a training on Corporate Governance.
- 1.14. Performs required administrative functions;
- 1.15. Performs such other duties and responsibilities as may be provided by the IC.

E.4. Compliance Officer²³

To insure adherence to corporate principles and best practices, the Board shall designate a Compliance Officer who should have a rank of Vice President or an equivalent position with adequate stature and authority in the corporation. The Compliance Officer should not be a member of the Board of Directors and shall report directly to the Chairman of the Board.

He shall perform the following duties:

- 1.1. Corporate Governance
 - a. Ensures proper onboarding of new directors (i.e., orientation on the company's business, charter, articles of incorporation and by-laws among others);
 - b. Monitor, review, evaluate and ensure compliance by the Corporation, its officers and directors with this Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation;
 - c. Ensure the integrity and accuracy of all documentary submissions to regulators;
 - d. Appear before the Insurance Commission when summoned in relation to compliance with this Manual;
 - e. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
 - f. Identifies possible areas of compliance issues and works towards the resolution of the same;

²³ SEC Circular No. 6, s2009

- g. Ensures the attendance of the board members and key officers to relevant trainings;
 - h. Determine violation/s of the Manual and recommend penalty for violation thereof for further review and approval of the Board; and
 - i. Performs such duties and responsibilities as may be provided by the IC
- 1.2. Anti-money Laundering Act²⁴
- a. Establish and maintain a Manual of Compliance procedures in relation to the business of the covered insurance institution;
 - b. Ensure compliance by the staff with the provisions of the Act and with the Manual of Compliance established;
 - c. Act as a liaison between the covered insurance institution and the council in matters relating to compliance with the provisions of the Act;
 - d. Prepare and submit to the Council written reports on the covered insurance institution's compliance with the provisions of the Act, in such for and submitted at such time as the Council may determine.
- 1.3. Serve as the Corporation's contact person to ensure compliance with insurance rules and regulations²⁵
- 1.4. Should annually attend a training on corporate governance

F. Adequate and Timely Information²⁶

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

Reliance on information volunteered by 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, forecasts and internal financial documents.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the corporation's expense.

²⁴ Title 9, Sec. 2 of Operating Manual against Money Laundering for Insurance Commission Covered Institutions (IC Circular No. 9, s2002)

²⁵ IC Circular No. 10, s2002

²⁶ SEC Memo Cir. No. 6, s2009

G. Accountability and Audit²⁷

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

Thus, it is essential that Management provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management should formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- 1.1. The extent of its responsibility in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
 - 1.2. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation should be maintained;
 - 1.3. 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 cover the corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
 - 1.4. The corporation should consistently comply with the financial reporting requirements of the Commission;
 - 1.5. 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 the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.
2. The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission who shall undertake an independent audit of the corporation, and shall provide an objective assurance on the manner by which the

²⁷ SEC Memo Cir. No. 6, s2009

financial statements shall be prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the corporation's annual and current reports. The report shall include a discussion of any disagreement between him and the corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the corporation to the external auditor before its submission.

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

3. The Board should conduct an annual assessment of its performance, including the performance of the Chairman, individual members and committees. Every three years, the assessment may be supported by an external facilitator.
4. The Board should have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, committees and such system should allow for a feedback mechanism from the shareholders.

H. Disclosure and 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 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 interests of the stockholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management. All such information should be disclosed through the appropriate Exchange mechanisms and submissions to the Commission.²⁸ The company should also ensure that the material and reportable non-financial and sustainability issues are disclosed.

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

²⁸ SEC Circular No. 6, s2009

for listed companies and submissions to the Commission for the interest of its stockholders and other stakeholders.²⁹

H.1. Related Party Transactions

As a general rule, the Corporation shall avoid Related Party Transactions (RPT). In instances where RPTs cannot be avoided, the Corporation shall disclose all relevant information on the same, including information on the related or affiliated parties and the affiliation of directors and principal officers.

The Corporation and its subsidiaries shall enter into any related-party transactions solely in the ordinary course of business, on ordinary commercial terms and on the basis of arm's length arrangements, and subject to appropriate corporate approvals and actions of the Corporation or the Related Parties, as the case may be. Any related-party transactions entered into by the Corporation shall be in accordance with applicable law, rules and regulations and this Policy.

The Corporation has adopted a policy on related party transactions where transactions with related parties are reviewed by the Related Party Transactions Committee, composed of independent directors, and require prior written approval of the members of the Board, with the exclusion of the director/s concerned in case the transaction involves him or his related interests. All directors and officers are required to disclose related party transactions and include a sign-off and commitment to disclose proposed transactions that the director or officer or their related party will undertake with Caritas.

All material or significant RPTs for the year should be disclosed in its Annual Company Report or Annual Corporate Governance Report.

H.2. Remuneration of Directors and Officers

The levels of remuneration of the corporation should be sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive directors may be structured or be based on corporate and individual performance.

Corporations may establish formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration levels for individual directors and officers depending on the particular needs of the corporation. No director should participate in deciding on his remuneration.

To protect the funds of a Corporation, the SEC may, in exceptional cases, e.g., when a corporation is under receivership or rehabilitation, regulate the payment of the compensation, allowances, fees and fringe benefits to its directors and officers.³⁰

²⁹ SEC Circular No. 9, s2014

³⁰ SEC Memo Circ. 6, s2009

In the absence of any provision in the by-laws fixing their compensation, the directors shall not receive any compensation, as such directors, except for reasonable per diems: Provided, however, that any such compensation other than per diems may be granted to directors by the vote of the stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting. In no case shall the total compensation of directors, as such directors, exceed ten (10%) percent of the net income before income tax of the corporation during the preceding year.³¹

The Corporation aims to provide the Board and its officers with a compensation package that is competitive with those paid by other companies, taking into account the Corporation's position against peers in the industry and other market considerations.

The members of the Board receive compensation based on their experience and their attendance in the meetings of the Board and the committees where they are members or chairs of. The pro-rated amount of said compensation is given to directors who are unable to complete their one (1) year term.

Generally, officers' salaries are determined with reference to the salary scale corresponding to the position and rank. Annual salary review shall be conducted and all increases are performance-based. The Corporation grants fixed and guaranteed bonuses inclusive of 13th month pay in compliance with the law. The Corporation also grants a performance bonus (non-guaranteed) based on the Corporation's performance, overall market conditions and individual performance.

The Board shall see to it that the remuneration policy is regularly reviewed to ensure that it is commensurate with corporate and individual performance and that the remuneration is consistent with industry while maintaining internal equity at the same time.

H.3. Dividend Policy

Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often at such times as the Board of Directors may determine and in accordance with law.³²

Dividends shall be declared and distributed only if the Corporation has met the minimum paid-up capital and net worth requirements under Section 194 of The Insurance Code and from profits attested in a sworn statement to the Commissioner by the President or Treasurer of the Corporation to be remaining on hand after retaining unimpaired:

- 3.1. The entire paid-up capital stock;
- 3.2. The solvency requirement defined by Section 200 of The Insurance Code;
- 3.3. The legal reserve fund required by Section 217

³¹ Title III, Sec. 30 of the Corporation Code of the Philippines

³² Art. 6, Sec. 3 of CHSI By-laws

- 3.4. A sum sufficient to pay all net losses reported, or in the course of settlement and all liabilities for expenses and taxes.

Any dividend declared or distributed under the preceding paragraph shall be reported to the Commissioner within thirty (30) days after such declaration or distribution.³³

H.4. Whistleblower Policy

All employees are encouraged to play their part in improving the overall effectiveness and success of the Corporation and in strengthening the Corporation's system of integrity. The Corporation has a Whistleblower Policy which aims to guide officers and staff on reporting complaints related to fraud, malpractice, conflict of interest or violation of internal/regulatory policies, procedures and controls.

H.5. Annual Corporate Governance Report (ACGR)³⁴

The Company shall annually submit to the Insurance Commission its Annual Corporate Governance Report (ACGR) and uploaded to its website as required in accordance with the Insurance Commission's issuances and directive.

³³ Chapter 3, Title 2, Sec. 201 of Republic Act No. 10607 (The Insurance Code)

³⁴ IC Circular 2020-72

IV. MONITORING AND COMPLIANCE

The Compliance Office shall monitor compliance by the Corporation with this Manual, and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation.

This Manual shall be subject to the rules and regulations, now or hereinafter enacted, by the SEC, IC and other regulatory bodies.