



EMPIRE
INSURANCE CO.

EMPIRE INSURANCE COMPANY

CORPORATE GOVERNANCE MANUAL

2019 REVISION

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The Board of Directors and Management of EMPIRE INSURANCE COMPANY ("the Corporation") recognize that good corporate governance is a key component of sound business management. The Corporation shall strive towards best practices over time, to raise its Corporate Governance practices to International Standards.

A. OBJECTIVE

This Manual shall institutionalize the principles of good corporate governance in the entire organization. Its primary objective is to enhance corporate accountability and promote the interests of its stakeholders, specifically those of the policyholders, claimants and creditors.

B. DEFINITIONS

1. Stakeholders – refers to the Corporation's stockholders, Board of Directors, officers, employees, intermediaries, policyholders, suppliers, creditors and the community.
2. Corporate Governance – refers to the system by which the Corporation is directed and managed. It influences how corporate objectives are set and achieved, how risks are monitored and controlled, and how performance is optimized.
3. Board of Directors – refers to the collegial body that exercises the corporate powers under the Corporation Code and the Corporation's By-laws. It conducts all business and controls or holds all properties of the Corporation.
4. Independent Director – refers to a person other than an officer or employee of the Corporation, its parent or subsidiaries, or any other individual having any relationship with the Corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he should be independent of Management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment.
5. Management – refers to the body given authority to implement the policies set by the Board in directing the course/business activities of the Corporation.
6. Executive Director – refers to a director who is at the same time appointed to head a department/unit within the corporate organization. N.B. Although the Chairman and Corporate Secretary are considered Executive Officers in the Corporations' By-Laws, they are not necessarily so in the context of this Manual, unless they discharge managerial responsibilities.
7. Non-Executive Director – refers to a Board member with no executive functions.
8. Internal Control – refers to the system that the Corporation's Board of Directors, Management and other personnel put in place to provide reasonable assurance regarding the achievement of objectives through the effectiveness and efficiency of

operations, the reliability of financial reporting, and compliance with applicable laws, regulations, and internal policies.

9. Independence – refers to an environment which allows a person to carry out his/her work freely and objectively.
10. Objectivity – refers to a mental attitude that is unbiased and not unduly subordinated to the judgment of others.

C. POLICY STATEMENTS

1. Good Corporate Governance and Responsibility. In the interest of Good Corporate Governance, the Corporation shall abide by all relevant Laws, its own By-Laws, Code of Ethics, Rules and Regulations, and this Corporate Governance Manual. Good Corporate Governance is the responsibility and concern, not only of the Board of Directors and Management, but also of each and every employee of the Corporation.
2. Protection of Policyholders, Creditors, and Minority Stockholders.
 - a. The Corporation shall safeguard its own continuity and sustainability through prudent underwriting and investment:
 1. The Corporation shall accept risks in strict accordance with the Underwriting Guidelines approved by the President and CEO.
 2. The Corporation shall only retain risks, or portions thereof, whose claims/losses it can service, without impairing its solvency. It shall observe relevant retention laws and contract sufficient reinsurance from sound providers.
 3. The Corporation shall exercise prudence in selecting asset classes, counterparties, and corresponding investment limits, primarily for principal protection and only secondarily for growth.
 4. The Corporation shall ensure that it can dispense its business functions, especially that of claims management, in times of natural and man-made calamities.
 - b. The Corporation shall accord priority to prompt, fair and judicious loss payment.
 - c. All parties with legitimate interest in the Corporation shall have accurate, timely and ready access to all of the Company's key financial and other information, including its Audited Financial Statement and other periodic reports in compliance with law.
 - d. Corporate independence shall be maintained. Controlling or substantial interests shall be disclosed to the Board, which shall ensure compliance with the provisions of Chapter III, Title 20 Holding Companies of the Insurance Code.
 - e. Related-party transactions shall be conducted fairly and at arm's length, i.e., on terms at least comparable to normal commercial terms. Prior Board approval shall be obtained for related-party transactions that are material in nature. Overlapping interests shall be disclosed to the Board and any material transaction involving such

interest shall be similarly disclosed. The provisions of Chapter III, Title 20 Holding Companies of the Insurance Code shall apply.

3. **Employee Wellbeing.** The Corporation shall look after the wellbeing of its employees beyond compensation packages. The Corporation shall comply with Health and Safety Regulations and provide a conducive working environment by maintaining and upgrading its facilities and equipment. The Corporations' Training Program shall continually provide well-rounded skill development to all its employees with its in-house trainings and seminars offered by training providers accredited by the Insurance Commission.
4. **Succession Management.** The Corporation shall develop understudies to ensure continuity in its business affairs in the event of sudden and/or unexpected vacancies, especially in key positions.
5. **Supplier Selection.** Suppliers undergo rigid and thorough accreditation requirements, including a review of their company profiles, SEC/DTI registration papers, business permits, client lists and the Corporation's evaluation of their past performance. Closed bids from at least three accredited suppliers are required for the selection of a supplier. For selected acquisitions so required by the Company, winning suppliers shall submit performance bonds.
6. **Social and Environmental Responsibility.** As a Filipino Corporation, Empire Insurance Company, recognizes its social and environmental responsibility and shall contribute to such causes, as the Board sees fit and within the authorities allowed by its Articles of Incorporation and By-laws.
7. **Ethical Standards.** The Corporation shall adhere to the highest ethical standards, as defined in a separate document, "Code of Ethics."

D. BOARD OF DIRECTORS

1. Size and Composition

- a. The size of the Company's Board of Directors is set in Article FIFTH of the Amended Articles of the Incorporation and Sec.1, Article II of the Amended By-Laws.
- b. Of the current eleven (11) members, at least three (3) shall be independent.
- c. The Board shall endeavor to include a balance of executive and non-executive directors, such that no individual or small group of individuals can dominate the Board's decision making.
- d. The Board shall hold regular monthly meetings on such day and time as the Board of Directors may so decide or schedule after its election in the Annual Meeting, to discharge its duties efficiently. Notwithstanding the required quorum of at least a majority of the Directors, the Board shall strive to achieve at least two-thirds (2/3) to declare a quorum for Board decisions. Any deviation below two-thirds (2/3) will be noted in the meeting minutes.

2. Qualifications of All Directors

- a. Directors shall have in their names at least one (1) share of stock, registered in the Stock and Transfer Book of the Corporation. They must continuously own at least one (1) share of stock during their term. Otherwise, they shall automatically cease to be directors.
- b. Directors shall be at least twenty-five (25) years of age at the time of appointment and shall continue to serve in such capacity with no age restriction, provided that they are physically and mentally able to discharge their duties, functions and responsibilities. They may voluntarily retire from service by giving notice to the Board of Directors at least thirty (30) days before the effectivity date of their retirement.
- c. Directors must have attended the special seminar on Corporate Governance conducted by a training provider accredited by the Insurance Commission.
- a. Directors shall be of unquestionable integrity and credibility.
- d. Directors shall have the necessary management skills, competence and experience preferably in Insurance or Insurance-related disciplines.
- e. Directors shall be ready to contribute meaningfully to the board's work, and actively participate in Board and committee meetings.

3. Disqualification of Directors

- a. The following are permanently disqualified from office:
 1. Persons convicted by final judgment in court for offenses involving dishonesty or breach of trust, such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft;
 2. Persons convicted by final judgment in court for violation of Insurance Laws;
 3. Persons judicially declared insolvent, spendthrift or unable to enter into contracts;
 4. Directors, officers or employees of any closed insurance company or insurance intermediary who was responsible for such institution's closure as determined by the Insurance Commission.
- b. The following are temporarily disqualified from office:
 1. Persons who refuse to fully disclose the extent of their business interests when required, pursuant to a provision of law or of a circular, memorandum or rule or regulation of the Insurance Commission. This disqualification shall be in effect as long as the refusal persists;
 2. Directors who have been absent or who have not participated, for whatever reasons, in more than fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during their incumbency, or any twelve (12) month period

during said incumbency. This disqualification shall apply in the succeeding elections;

3. Persons convicted for offenses involving dishonesty, breach of contract or violation of insurance laws, but whose conviction has not yet become final and executory;
4. Directors, officers or employees of any closed insurance company or insurance intermediary. This disqualification shall apply until clearance is obtained from the Insurance Commission;
5. Directors disqualified for failure to observe/discharge their duties prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification set by the Insurance Commission;
6. Directors who fail to attend the special seminar on Corporate Governance. This disqualification applies until the Director concerned shall have attended such seminar;
7. Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity;
8. Those under preventive suspension;
9. 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 shall have cleared themselves of involvement in the alleged irregularity.
10. Persons who are delinquent in the payment of their obligation as defined hereunder:
 - a. Persons are delinquent when they fail to pay either:
 1. An obligation with the Insurance Company or its related companies, of which they serve as director or officer; or
 2. At least two (2) obligations with other insurance companies, under different credit lines or loan contracts;
 - b. Obligations shall include all borrowings from an insurance company or its related companies obtained by:
 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. The spouse or child under the parental authority of the director or officer;

3. Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of, a director or officer;
4. A partnership of which a director, officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
5. A corporation, association or firm wholly-owned or majority-owned by any or a group of persons mentioned in items 1, 2, and 4:

This disqualification shall be in effect for as long as the delinquency persists.

4. Qualifications of Independent Directors

- a. Independent Directors shall not have been an officer or employee of the Corporation, its subsidiaries or affiliates or related interests for the last three (3) years immediately preceding his term or incumbency.
- b. They are not related within four degrees of consanguinity or affinity, legitimate or common-law, of any director, officer or majority stockholder of the Corporation, or any of its related companies.
- c. They are not directors or officers of companies owned by, or related to, the Corporation's majority stockholders.
- d. They are not major or substantial stockholders of the Corporation, any of its related companies, or those of the Corporation's majority stockholders.
- e. They do not provide services, or receive significant income for other professional services, rendered to the Corporation.
- f. They are not nominees or representatives of any director or substantial stockholder of the Corporation, any of its related companies, or those of its substantial stockholders.
- g. They are free from any business or any other relationship with the Corporation or any of its major stockholders which could materially interfere with the exercise of their judgment. Their business transactions with the Corporation, any related company or any substantial stockholder thereof, whether by themselves, with other persons, or through a firm of which they are partners directors or stockholders, are above-board and conducted at arm's length.
- h. They may serve for a maximum cumulative term limit of nine (9) years.
- i. Independent Directors who serve the maximum period shall be perpetually barred from any re-election in the same Corporation, but may continue as non-independent directors. However, if the Corporation desires to retain the services of an Independent Director who had already served the maximum term limit, such Independent Director, as an exception, may still continue to do so, provided that the Corporation submits to the Insurance Commission a formal written justification and must, in addition thereto, acquire the majority of the shareholders' approval during its Annual Meeting as prescribed by IC Circular Letter (CL) 2018-36 dated June 26, 2018. D. Term Limit of

Independent Directors. (N.B. The foregoing term shall be reckoned from January 02, 2015.)

5. Duties of Directors:

- a. Avoid conflicts of interest, ensuring that their transactions with the Corporation, if any, are done in the regular course of business and upon terms not less favorable to the Corporation than those offered to others. They shall not take advantage of their position to unduly profit or benefit themselves or their related interests. They shall avoid situations that would compromise impartiality.
- b. Act judiciously and independently when deciding on matters brought before the Board of Directors by thoroughly evaluating issues, asking questions and seeking clarifications, as needed, ~~stating~~ stating their position without concern for the popularity of such position and support plans and ideas that he believes will benefit the Corporation.
- c. Familiarize themselves with, and keep abreast with developments in, the following:
 1. The Corporation's Articles of Incorporation, By-laws, Corporate Governance Manual and Code of Ethics;
 2. The Corporation's business;
 3. The Corporation's performance, including premium growth, underwriting results, investments, claim management and credit control;
 4. Applicable laws, including the Corporation Code and the Insurance Code, and regulatory issuances and requirements of the Insurance Commission;
 5. The Corporation's existing or potential problems;
 6. Industry developments and business trends;
- d. Keep all non-public information acquired in their capacity as directors confidential, and avoid disclosure of such information without Board authority.
- e. Be present and actively participate in at least fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during their incumbency, or in any twelve (12) month period during said incumbency, to qualify for succeeding elections.
- f. Directors may not take out any loan from the Corporation, to ensure that each Director's independence is not compromised.
- g. Directors are required to inform the Board in writing their dealings in Company shares within three (3) business days from the execution of the Deed of Sale.

6. Powers of the Board of Directors

- a. Govern the Corporation in accordance with the Corporation Code of the Philippines and the Corporation's Article of Incorporation and By-laws.
- b. Approve Corporate Vision and Mission, provide strategic direction.
- c. Approve the organizational structure, appoint top officers and set Authorities and Powers of the President & CEO;

- d. Provide strategic direction and corporate policies in major areas of operation.
- e. Define strategic and financial objectives, plans and actions, and evaluate the Corporation's achievement thereof.
- f. Oversee the conduct of the business to ensure proper management, fair and equitable dealings with the policyholders, claimants and creditors, and compliance with applicable laws, rules and regulations and the Corporation's own Article of Incorporation and By-laws.
- g. Identify key business risks and ensure the implementation of appropriate internal controls and management information systems to manage these.
- h. Cause the timely and accurate disclosure of all material matters, including the Corporation's financial condition, performance, ownership structure and governance, in compliance with financial and other reportorial requirements of the Insurance Code, and in the format prescribed by the Insurance Commission.
- i. Appoint a Corporate Secretary who shall be a Filipino citizen, capable of carrying out the duties to which the post entails.
- j. Appoint a Compliance Officer responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.
- k. Establish operational risk-taking limits commensurate with the financial and technical capabilities for the Corporation's core activities:
 - 1. Acceptance and Claims Settling Authorities
 - a. Approve acceptance and claims settling authorities of all Officers.
 - b. Ensure that there are sufficient controls to ensure that Officers confine themselves to acceptances and claims settlement levels that are within their authorities.
 - 2. Investments
 - a. Approve all types of asset classes, issuers of financial instruments, and corresponding investment limits for the Corporation's investments, subject to the restrictions of Title 3 – Assets (Sections 202 to 203) and Title 4 – Investments (Sections 204 to 206) of the Amended Insurance Code, RA 10607 and IC Circular Letters 2014-17 and 2014-21, or other applicable laws, rules and guidelines as may be issued.
 - b. Approve banks with whom the Corporation may transact, amounts of deposits, and authorized signatories.
- l. Approve the acquisition and disposal of assets of material nature, such as Real Estate Property, Investments, Securities, Company Vehicles, and vehicular salvage.

- m. Review the performance of senior management and plan for succession, including the replacement, appointment, and training of senior executive officers.
- n. Ensure a system for setting compensation packages for all employees, including all benefits.
- o. Review and approve material transactions not in the Corporation's course of business.
- p. Assess the Board's and their own effectiveness in fulfilling their responsibilities.

7. Elections

- a. Stockholders shall elect qualified members of the Board of Directors in the manner prescribed in Section 5, Article I of the Amended By-Laws of the Corporation.
- b. The results of the Annual Stockholders Meeting's election, as validated by an appointed independent party in the said meeting, shall be disclosed on the next working day in the Company's website.

8. Orientation and Training of Directors

- a. The Corporation shall provide adequate orientation for new directors.
- b. The Board shall assess the adequacy of director development and education for individual directors and for the Board as a collegial body.
- c. The Chairman shall ensure that the Directors continually update their skills, knowledge and familiarity with the Corporation's goal and objective, in order to fulfill their roles in the Board and/or Board Committees.
- d. The Chairman shall ensure that, as an integral element of appointing new Directors, the Corporation provides an orientation and education program for new recruits to the Board.

9. Chairman of the Board

- a. The Chairman shall not be concurrently the President & CEO, to ensure balance of power and authority, as well as greater accountability, so that no one person has unfettered decision-making powers. Accordingly, the Chairman of the Board should be a non-executive director.
- b. The Chairman shall hold meetings with the Non-Executive directors without the Executives' presence to evaluate the Executives' performance.
- c. The Chairman shall schedule meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Corporation's operations;
- d. The Chairman shall determine the agenda, in consultation with the CEO;
- e. The Chairman shall control the quality, quantity and timeliness of the flow of information between Management and the Board; and

- f. The Chairman shall assist in ensuring compliance with the Corporation's guidelines on Corporate Governance.

10. Corporate Secretary

- a. The Corporate Secretary, through the Chairman, shall be responsible for advising the Board about governance matters and shall be accessible to all members of the Board.
- b. The Corporate Secretary is responsible for ensuring that the Board procedures are complied with.
- c. Both the appointment and removal of the Corporate Secretary shall be decided by the Stockholders as stated in Section 1. Article III of the Corporations' By-Laws.
- d. The Corporate Secretary shall submit to the Insurance Commission, an Annual Certification – Attendance of each Director at the Board Meetings over the fiscal year, signed by the President & CEO, no later than January 30 of the following year.
- e. The Corporate Secretary shall be responsible for the preparation of the Governance Scorecard and its annual dissemination in the Company's website. Disclosure shall include material information on the Corporation's financial and operating results. It shall also include the Corporation's material, foreseeable risks.
- f. The Corporate Secretary shall be responsible for the preparation of Annual Reports that shall disclose the following:
 - 1. A statement of how the Board operates, types of decisions to be followed by the Board and those that are to be delegated to Management.
 - 2. Identify the Chairman, Independent Directors and the Chairmen and members of the Executive, Investment, Nomination, Audit, and Remuneration Committees and the Non-Executive Directors.
 - 3. The number of meetings of the Board as well as those of the Committees and attendance record of its Directors.

11. Multiple Board Seats

The CEO and executive directors are allowed to be members of no more than four (4) other corporate boards. Non-executive directors are allowed to be members of no more than five (5) other corporate boards. Exceptions are to be explicitly disclosed to stockholders during elections.

12. Corporate Governance Compliance Officer

To ensure adherence to Corporate Governance Principles and Leading Practices, the Chairman of the Board shall designate a Compliance Officer who shall hold at least the rank of Vice President or its equivalent and shall have direct reporting responsibilities to the Chairman of the Board.

13. Annual Board Assessment

An annual assessment of the Board, as a body, the Chairman, the President and CEO, and the individual directors shall be conducted under the supervision of the Nomination Committee. The Committee shall guarantee the criteria to be used and the transparency of the assessment process therein.

14. Insurance

The Corporation shall arrange for an appropriate insurance cover with respect to legal action against its Directors in relation to their official functions.

E. BOARD COMMITTEES

1. Executive Committee – Responsible for overseeing the daily implementation of Board Policies and making sure that the Board is establishing and maintaining good governance practices. It acts on behalf of the full Board between meetings or in urgent situations submitted by Management for action, when the Board cannot convene. It is composed of at least three (3) Board members with at least one (1) Independent Director.
2. Investment Committee - Advises the Board on the deployment of funds in their choice of asset classes, counterparties and corresponding investment limits. It is composed of at least three (3) members of the Board.
3. Audit Committee - Responsible for the following:
 - a. Recommending the appointment of the External Auditor;
 - b. Setting up an independent Internal Audit Department and the appointment of a competent internal auditor who shall report to the Board;
 - c. Serving as direct channel of communication of Internal Auditors and Compliance Officers to the Board;
 - d. Monitoring the system of internal controls and corporate compliance with laws, regulations and Code of Ethics;
 - e. Reviewing the Annual Financial Statements for completeness and consistency in information, and shall recommend it to the Board for approval;
 - f. Hiring independent advisers when necessary;
 - g. Elevating accounting and auditing processes, practices and methodologies to International Accounting Standard (IAS); this includes a definition of a timetable within which to achieve 100 compliance, identifying officers and/or personnel responsible for the task.
 - h. Facilitating the Annual Self Assessment Evaluation of the Board of Directors as a collegial body and as individual Directors.

It is composed of three (3) preferably Independent Directors with Accounting and Finance experience. Its chairman is an Independent Director.

It shall convene four (4) times a year and as needed, with meeting minutes prepared;

4. **Nomination Committee** - Reviews and evaluates the qualifications of all persons nominated to become members of the Board, in accordance with the qualification standards in Section D above, as well those nominated to other positions requiring Board appointment.

It is composed of at least three (3) members of the Board of Directors, at least one of whom is an independent member. Its chairman is an independent director.

It shall convene at least twice (2) a year, with meeting minutes prepared.

5. **Compensation and Remuneration Committee** - Establishes policies on compensation or remuneration of the Company's executive directors, the Chairman, Senior Management and all other personnel; ensures that there is a system of compensation providing performance incentive to Management. The Committee also performs Board and Senior Management evaluation.

It is composed of at least three (3) members of the Board, with a majority of Independent Directors. Its Chairman is an Independent Director. It shall convene at least twice (2) a year, with meeting minutes prepared.

6. **Non-Executive Directors** – Composed of all Non-Executive Directors, chaired by an Independent Director, and shall convene annually, without the Chairman's presence, to appraise the Chairman's performance. It shall also convene on other such occasions deemed appropriate, with meeting minutes be prepared.
7. **Independent Directors** – Composed of at least three Independent Directors and shall convene as needed, without the presence of other Directors. The Independent Directors shall review material related-party transactions and present their findings and recommendations to the Board.

F. BOARD MEETINGS

The Board of Directors shall hold regular monthly meetings at the principal office of the Company on such days and times as they see fit. Special board meetings may be called by the President and CEO or by the written request of any two directors, as prescribed in the Section 4 Article II of the Corporation's By-laws.

Management shall strive to deliver Board Papers/Reports for the meetings to the members of the Board at least five (5) business days in advance of the Board Meeting date.

The Board may hold meetings wherein an attendee is not physically present. Communication may be facilitated through electronic medium. Such meetings shall comply with the requirements of Securities and Exchange Commission Memorandum Circular No.15 Series of 2001, in relation to Section 16 of the Electronic Commerce Act (R.A. 8792) and Section 25 of the Corporation Code of the Philippines (BP68).

G. BOARD REMUNERATION

1. The Stockholders shall set remuneration levels adequate to attract and retain qualified directors, as provided by the By-laws.
2. Remuneration for directors shall be competitive and take into account the duties and responsibilities they discharge.
3. Stock in the Corporation may form a significant portion of the remuneration package for directors.

H. IMPLEMENTATION AND ENFORCEMENT

The Board of Directors and Management commit themselves to the principles and best practices contained in this Manual and will exhaust all efforts to create awareness within the organization.

Original signed

AUGUSTO BENEDICTO L. SANTOS
Chairman