

FORTUNE GENERAL INSURANCE CORPORATION

CORPORATE GOVERNANCE MANUAL

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FORTUNE GENERAL INSURANCE CORPORATION

CORPORATE GOVERNANCE MANUAL

I. INTRODUCTION

The Board of Directors and Management, i.e., officers and staff, of Fortune General Insurance Corporation hereby commit to adhere to highest principles of good corporate governance. We are guided by the core values of Professionalism, Responsibility, Competence, Dedication, Promptness and a Sense of Urgency, Excellence, and Entrepreneurship.

The Board of Directors, Officers and Employees hereby commit themselves to follow the principles and practices contained in this Manual which shall serve as the guide in reaching our goals and guide in the day to day business activities of the Company.

II. CORPORATE GOVERNANCE STRUCTURE

A. Board of Directors

- The Board of Directors is principally responsible for the compliance to the highest standard of good governance of the company. The Board shall be responsible in approving and overseeing the implementation of the corporate plans and strategy.

B. Composition of the Board and the Independent Directors

- The Board shall be composed of fifteen (15) directors who shall be elected by the stockholders at the regular meeting and shall hold office for one (1) year or until their successors are elected or shall have qualified as provided for in the Articles of Incorporation and By-Laws.
- The Board shall have at least two (2) independent directors.

C. Key Responsibilities of the Board of Directors

- The stewardship of the company rests on the Board of Directors. The Board of Directors is responsible for the success of the company and ensures that company's obligations to its stakeholders are met.

D. General Responsibilities of the Board of Directors

- Approval and final adoption of the corporate strategy, with proactive oversight of strategy execution.
- Formulation and adoption of a corporate policy, starting with a policy related to corporate governance and oversight of strategy execution.
- Performance monitoring which covers financial and non-financial performance as well as oversight of risk management.
- Review and approve the budget prepared by Management as well as the revisions thereto and shall monitor actual performance against the budget.
- Setting up of an accountability system which includes provision for rewards incentives and penalties.
- Promotion of a culture of ethics social responsibility and good governance.
- Oversee selection and performance of senior management.
- Adopt an effective succession planning program for management.
- Establish a formal performance standards to be able to effectively assess the performance of senior management.
- Monitor and assess the performance of the management team based on established performance standards.
- Review policies, internal controls and self-assessment functions (e.g., internal audit, risk management and

compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.

- Establish the tone of good governance and conduct the affairs of the company with a high degree of integrity in accordance with the corporate values, code of conduct and other standard of behavior.
- Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.
- Assess at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, the individual directors, and the company itself; regularly review the composition of the board in view of having a balanced membership.
- Appoint members of committees taking into account their qualifications and expertise which may include independent directors and non-executive members of the board.
- Utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors in monitoring the overall performance of the company.
- Ensure the Company's faithful compliance with all applicable laws, regulations and best business practices.
- Identify the **stakeholders** in the community in which the Company operates or which are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- Formulate and implement policies and procedures that will ensure the integrity and transparency of related party transactions between and among the corporation and its joint ventures, 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.

- Appoint a Compliance Officer who shall have the rank of at least a Vice President.
- Establish appropriate management information systems; and
- Protect the interests of stakeholders adequately

E. Qualification of Directors

- Shall own of atleast one (1) share in the capital stock of the company.
- Shall be atleast twenty five (25) years of age at the time of appointment.
- Shall possess necessary skills, competence and experience in terms of management capabilities preferably in the field of insurance.
- Shall possess integrity, probity, and be diligent and assiduous in the performance of functions.
- Physically and mentally healthy and morally upright.
- No conflict of interest; no competing officership, directorships, memberships position in other company having the same business.
- Not otherwise disqualified by law or by any circular from the Insurance Commission.

F. Disqualification of Directors

The disqualification of any director shall be divided into two categories which are the permanent disqualification and temporary disqualification.

1. PERMANENT DISQUALIFICATION

- Conviction of a crime involving moral turpitude.
- Directors, officers, or employees of closed insurance companies or any insurance intermediaries who were responsible for such closure as determined by the Insurance Commission or any tribunal.
- Any person judicially declared insolvent, spendthrift and unable to enter into a contract.

2. TEMPORARY DISQUALIFICATION

- Conviction for offenses involving moral turpitude but whose conviction is not yet final and executor.
- Non-disclosure of the extent of their business interest when required pursuant to a provision of law, or circular issued by the Insurance Commission. This disqualification shall be in effect as long as the refusal persists.
- Those under preventive suspension or persons dismissed/terminated from employment for just cause until they have cleared themselves in the involvement in the alleged irregularity.

G. Qualifications of Independent Directors

An Independent Director shall refer to a person who –

- Is not or has not been, an officer or employee of the company, during the past three (3) years counted from the date of election.
- Is not a director or officer of the related companies of the company's majority stockholder.
- Is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of the company, or in any of its related companies or of its majority corporate shareholders.

- Is not a relative, legitimate or common-law of any director, officer or majority shareholder of the company or any of its related companies. Relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, brother-/sister-in-law.

H. Disqualification of Independent Directors

- Conviction of a crime involving moral turpitude.
- Securities broker-dealer disqualifies from sitting as an Independent Director of listed companies and registered issuers of securities. Securities broker-dealer shall refer to any person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer.

I. Term Limits for Independent Directors

- Independent Director(ID) can be elected to only five (5) companies of the conglomerate, parent bank and its subsidiaries and affiliates.
- Independent Director of a company may only serve as such for a total of five (5) consecutive years. ID shall be ineligible for reelection unless he has undergone a “cooling off” period of two (2)-years; and
- After the two (2)-year “cooling off” period, an ID can be re-elected and serve for another five (5) consecutive years and shall be perpetually barred from being elected as such after serving for ten (10) years.

J. Board Meetings and Quorum Requirement

- The Members of the Board should attend its regular and special meeting in person and can actively participate in the deliberations on matters taken up during the meeting.

- A majority of the directors shall be necessary at all meetings to constitute a quorum for the transaction of any business and every decision of a majority of the quorum assemble as Board shall be valid as a corporate act unless otherwise provided by law.
- An independent director shall, as far as possible, be in attendance. However, the absence of an independent director may not affect the quorum requirements if he duly notified of the meeting.
- A minority of the Board present at any regular or special meeting shall, in the absence of a quorum, adjourn to a later date, and shall not transact any business until a quorum has been secured.

K. Specific Duties and Responsibilities of the Chairman of the Board of Directors:

- To call, convene and preside over all meetings of the Board of Directors whenever he may deem it necessary, either on his own initiative, or upon the request of the President, or two members of the Board; and the stockholders in accordance with the Amended By-Laws.
- To 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.
- To provide leadership in the board of directors. The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members.
- To ensure that the board takes an informed decision. The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within decision-making process.

- To maintain qualitative and timely lines of communication and information between the Board and Management.
- To assist in ensuring compliance with the Company's guidelines on corporate governance; and
- To perform such other functions as are assigned to him by law or by the Board of Directors.

L. Remuneration of Directors and Officers

- Every Director shall receive such compensation for their services as may from time to time be fixed by the stockholders subject to the limitations set forth by the Corporation Code of the Philippines. Each director shall also be entitled to a reasonable per diem, as may be determined by the Board.

M. Board Committees

In order to aid in compliance with the principles of good corporate governance, the Board of Directors shall constitute, at a minimum, the following Committees:

➤ NOMINATION COMMITTEE:

- The Nomination Committee shall be composed of three members of the Board.
- Conducts a thorough examination of the as to the qualifications of all persons nominated to the Board.
- Prepares the necessary job description if the appointment is for the chairman of the Board.
- Ensures that the directors to be nominated for elections at the annual stockholders meeting and none of the disqualifications as stated in this manual and in the by-laws as well as the pertinent provisions of the Corporation Code.

➤ COMPENSATION COMMITTEE:

- The Compensation Committee shall be composed of three members of the Board.
- Establishes a written procedure for the remuneration packages of officers and directors.
- Provides oversight over remuneration of senior management and other key personnel.

➤ **AUDIT COMMITTEE:**

- The Audit Committee shall be composed of three members of the Board.
- Must be chaired by an independent board member preferably with accounting and finance experiences.
- Provides assistance to the Board of Directors in performing its oversight responsibility to the shareholders in relation to company's financial statements and financial reporting process.
- Monitors and evaluates the adequacy and effectiveness of the internal control system of the company.

N. Key Officers and their Respective Responsibilities

➤ **The President**

- The Chief Operating Officer of the Company shall be the President who shall be elected by the Board of Directors from among its members.
- The President of the Company shall, among other powers and duties inherent in his office, execute and administer the policies, measures, orders and resolutions approved by the Board of Directors, and direct supervise the operations and administration of the Company.
- To execute all contracts and to enter into all authorized transactions in behalf of the Company.

- Supervise the decisions or actions of subordinate officers and all other powers that may be granted by the Board.
- To appoint, promote or remove employees and officers of the Company, except those who are be appointed or removed by the Board of Directors.
- To transfer, assign and reassign officers and personnel of the Company in the interest of the service.
- To report periodically to the Board of Directors on the operations of the Company.

➤ **The Corporate Secretary**

- The Corporate Secretary, who should be a Filipino citizen a resident of the Philippines, is an officer of the Company and must be a member of the Philippine Bar.
- Must have deep knowledge about insurance and working knowledge of the operations of the company.
- The Corporate Secretary shall be responsible in notifying all the parties concerned in any stockholders and board meetings.
- Shall inform the members of the Board of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matter that require their approval.
- Attend all Board meetings and provide proper assistance to the Members of the Board during all Board Stockholders' meetings while they are in the performance of their duties and responsibilities under the law and the By-Laws.
- Responsible for the safekeeping and preservation of the integrity of the Minutes of the meetings, as well as the other official records of the company.

- Prepares the Agenda for the Board and Executive Committee meetings and also assists the directors in attending seminars and trainings.

➤ **The Compliance Officer (CO)**

- The Compliance Officer shall hold a position of at least Vice President or its equivalent. He shall monitor compliance by the Company with the provisions and requirements of this Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board.
- In charge in monitoring the company compliance with the provisions and requirements of the Corporate Governance Manual and relevant rules and regulations as well as keeping the Directors updated regarding any related statutory changes.

➤ **The External Auditor**

- An External Auditor shall ensure the establishment and maintenance of an environment of good corporate governance as reflected in the financial records and reports of the Company.
- The Board, after consultations with the Board Audit and Compliance Committee, shall recommend to the stockholders an External Auditor duly accredited by SEC.
- The External Auditor as appointed by the stockholders shall undertake an independent audit of the Company, and shall provide an objective assurance regarding the manner under which the financial statements are prepared and presented to the stockholders.
- The External Auditor of the Company shall not at the same time provide internal audit services to the Company. 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 and the date of effectivity of such action shall be reported in the Company's annual and current reports. The report shall include a discussion of any disagreement between him and the company on accounting principles or practices, financial statement disclosures or audit procedures which the former auditor and the Company failed to resolve satisfactorily.
- If the External Auditor believes that any statements made in the Company's annual report, information statement or any report filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall properly present his views in said reports; and
- The Company's External Auditor shall be rotated or changed every five (5) years earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency.
- Form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework based on the evaluation of the conclusions drawn from the audit evidence obtained; and express that opinion clearly through a written report that also describes the basis for the opinion.
- The external auditor shall identify and assess the risk of material misstatement in the company's financial statements, taking into consideration the company's operations, control environment and its components as well as the company's financial reporting systems. The assessment shall also take into account qualitative aspects of the company's accounting practices, including indicators of possible biases in management's judgments. The external Auditor should, likewise, assess, and communicate to the Board of Audit and compliance Committee the results of its assessment on the capability of the company's management, the strength of the company's control environment, and the

adequacy of the company's accounting/information systems to comply with financial and prudential reporting responsibilities.

- The external audit team is expected to be composed of members whose collective skills and competence are commensurate with the size and complexity of the operations of the company.

➤ **The Internal Auditor**

- The company shall have in place an independent internal audit which shall be performed by an internal Auditor or a group of Internal Auditors, through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.
- **The company shall have in place an effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the company for the benefit of all stockholders and stakeholders.**
- The Corporate Governance Committee shall be responsible for the endorsement to the Board the approval of the appointment of the Internal Auditor as recommended by the Board Audit and Compliance Committee.
- The Chief Audit Executive/Internal Auditor shall render to the Board and Board Audit and Compliance Committee and senior management an annual report on the internal audit department's activities, purpose, authority, responsibility and performance relative to audit and Compliance Committee.
- The minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Company's organizational and procedural controls; and

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

III. RIGHTS AND PROTECTION OF STOCKHOLDERS

➤ **Right to Vote.**

- Stockholders shall have the right to elect, remove and replace Directors and vote on certain corporate acts in accordance with the Corporation Code. Cumulative voting shall be used in the election of Directors.

➤ **Right to inspect corporate books and records.**

- Any shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the Directors and officers and certain other matters such as their holdings of the Company's shares, dealings with the Company, relationships among Directors and key officers, and the aggregate compensation of Directors and officers;

➤ **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 matter such as their holdings of the Company's shares, dealings with the Company, relationships among Directors and key officers, and the aggregate compensation of Directors and officers;

➤ **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 the Corporation Code of the Philippines, under any of the following circumstances:
 - In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
 - In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate and assets of the Company; and
 - In case of merger or consolidation.

➤ **Pre-emptive right.**

- All stockholders shall enjoy pre-emptive right to subscribed to all issues or disposition of shares in proportion to their respective shareholdings in accordance with the Corporation Code of the Philippines.

➤ **Right to dividends.**

- Dividends shall be declared and paid out of the surplus profits of the Company as often and at such times as the Company may determine and in accordance with the provisions of the law and regulations.

IV. REPORTS AND DISCLOSURES

- The Board shall commit at all times to fully disclose all material information which could adversely affect the interest of stockholders and other stakeholders shall be publicly disclosed in a timely manner.

- The reports or disclosures required under this revised Manual shall be prepared and submitted to the SEC by the responsible office/officer.
- The Company shall submit all necessary reports that may be prescribed by the regulatory bodies/agencies in accordance with existing regulations covering related party transactions among entities.

V. COMMUNICATION PROCESS

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

VI. PENALTIES FOR NON-COMPLIANCE WITH THE REVISED MANUAL

- The Company shall establish an evaluation system to determine and measure compliance with this Manual. Violation of any provision of this manual shall be subjected to penalty in accordance with the rules and regulations of the Company.