

# **CORPORATE GOVERNANCE**

The Board of Directors and Management of PIONEER INSURANCE & SURETY CORPORATION (the "Company") recognize that good corporate governance is key to achieving the Company objective of maximizing shareholder and stakeholder (i.e. policyholder, claimant and creditor) value. The institution of this Report on Corporate Governance seeks to provide the process and structure by which the business and affairs of the Company are directed and managed, in order to enhance the long-term shareholder value through the enhancement of corporate performance and accountability, taking into account the interest of all its stakeholders. As such, the Board of Directors and Management hereby commit themselves to the principles and best practices contained in this Report, and acknowledge that the same may guide the Company in the attainment of its corporate goals.

## **I BOARD COMPOSITION AND RESPONSIBILITY**

### Composition

The Company's Board of Directors shall be composed of nine (9) members, elected by the stockholders having at least one (1) share registered under his/her name. Of the nine (9) members, three (3) shall be independent directors who are not involved in the management of the company nor are major / substantial shareholders.

### Term

The elected Board of Directors shall sit for a term of one (1) year, without any prohibition with respect to re-election.

### Qualification

Each director should be an individual of the highest integrity, free from any conflict of interest that would violate any applicable law or regulation or interfere with the proper performance of the responsibilities of a director, with the adequate diligence to perform a director's duties, and is able to represent the interest of the shareholders as a whole.

### Restrictions

No person is eligible for nomination or election to the Board if he is engaged in any business, which competes directly with the Company. All members of the Board are prohibited from simultaneously holding six or more similar positions in any company.

### Positions

Immediately upon its constitution, the Board shall formally organize itself by electing amongst themselves the Chairman, the Vice Chairman and the President. It also elects a Treasurer, who may or may not be a director and a Secretary who is a resident and a citizen of the Philippines. To ensure balance of power and authority, the positions of CEO and Chairman of the Board are to be occupied by different persons.

At present, the board has nine (9) directors possessed with the necessary skills, competence and experience in the field of management and/or and insurance and are persons of probity, credibility, and integrity.

### Powers

All corporate powers, business and property of the corporation are exercised, conducted and controlled by the Board of Directors. Without prejudice to such general powers and such other powers granted by the law, the Board of Directors likewise has the following powers:

- (1) From time to time, they may make and change rules and regulations not inconsistent with the by-laws for the management of the Company's business and affairs;
- (2) To purchase, receive, take or otherwise acquire in any lawful manner, for and in the name of the Company, any and all properties, rights, interests or privileges, including securities and bonds of other corporations as the transaction of the business of the Company may reasonably or necessarily require, for such consideration and upon such terms and conditions as the Board of Directors may deem proper or convenient;
- (3) To invest funds of the Company in another corporation or business or for any other purposes other than those for which the Company was organized, whenever in the judgment of the board, the interests of the Company would thereby be promoted, subject to such stockholder approval as may be required by law;
- (4) To incur such indebtedness as the Board may deem necessary and, for such purpose, to make and issue evidence of such indebtedness including without limitation, notes, debentures, or securities, subject to such stockholder approval as may be required by law, and/or pledge, mortgage, or otherwise encumber all or part of the properties and rights of the Company;
- (5) To guarantee, for and in behalf of the Company, obligations of other corporations or entities in which it has lawful interest;
- (6) To make provisions for the discharge of the obligations of the Company as they mature including payment for any property or rights acquired by the Company, either wholly or partly in money, property, or in stocks, bonds, debentures or other securities of the Company lawfully issued for the purpose;
- (7) To impose conditions as the Board may deem convenient, subject to the limitations prescribed by law, regarding the transfer of shares issued in total or partial payment of debts contracted or properties acquired by, or services rendered to the Company;
- (8) To sell, lease, exchange, assign, transfer or otherwise dispose of any property, real or personal, belonging to the Company whenever in the Board's judgment, the Company's interest would thereby be promoted;
- (9) To establish pension, retirement, bonus, profit sharing, or other types of incentives or compensation plans for the employees, including officers and directors of the Company and to determine the persons to participate in any such plans and the amount of their respective participants;
- (10) To prosecute, maintain, defend, compromise or abandon any lawsuit in which the Company or its officers are either plaintiffs or defendants in connection with the business of the Company, and likewise, to grant installments for the payments or settlement of whatsoever debts are payable to the Company;

- (11) To delegate, from time to time, any of the powers of the Board which may be lawfully delegated in the course of the current business or businesses to any standing or special committee or to any officer or agent and to appoint any persons to be agents of the Company with such powers (including the power to sub-delegate), and upon such terms as may be deemed fit; and
- (12) To implement the by-laws and to act on any matter not covered by the same provided that such matter does not require the approval or consent of the stockholders under any existing law, rule or regulation.

#### Meetings

The Board conducts regular board meetings every fourth Tuesday of April unless the same is a legal holiday. Otherwise, meetings are conducted on the succeeding business day.

#### Executive Committee

The Board likewise constitutes an Executive Committee, which exercises and manages the business and affairs of the Company when the Board is not in session.

## **II MANAGEMENT ACCOUNTABILITY**

### **The Board of Directors**

To ensure good governance, the Board institutes the Company's vision and mission, strategic objectives, policies and procedures that guide and direct the activities of the Company and the means to attain the same as well as the mechanism for monitoring management performance. The Board is likewise responsible in monitoring and overseeing management action.

### **An individual Director**

A director's office, being a position of trust and confidence, is acted upon in the best interests of the Company in a manner characterized by transparency, accountability and fairness. A director is prohibited from benefitting from knowledge about the Company or its operations that is generally not available to the market.

### **Annual Assessment**

An assessment of the Board, as a body, the President, the CEO, and the individual directors shall be conducted every year. It shall be under the supervision of the Nomination Committee, who shall guarantee the transparency of the assessment process as well as the criteria to be used therein.

## **III CORPORATE INDEPENDENCE**

The Company endeavors to maintain corporate independence in order to avoid compromising the interests of the minority shareholders and other stakeholders.

Full disclosure of controlling and/or substantial interest in the Company should be made to the Board, who ensures compliance with the pertinent provisions of the Insurance Code.

### **Loans**

The Company prohibits the grant of loans to any member of its Board of Directors to ensure that its independence will not be put to question.

### **Related Party Transactions**

Overlapping interests and any material transactions relating thereto are similarly disclosed to the Board. Should a director have an interest in a related party transaction or any other instance where there may be a conflict of interest, full disclosure is required. They are obliged to notify the Board at least one (1) day before they deal with company shares.

In the event that a related party transaction is disclosed to the Company, the Board shall cause the formation of a committee that includes independent directors, to review such disclosure. The member of the Board that has a related party transaction or a similar conflict of interest is also required to abstain from participating and voting when such matter is discussed.

## **IV INTERNAL CONTROLS AND OPERATIONAL RISK MANAGEMENT**

The Board ensures that an effective system of controls is in place for safeguarding the Company's assets.

The Board exerts best efforts to protect shareholder value through adequate financial controls. The Board fosters and encourages a corporate environment of strong internal control, fiscal accountability, high ethical standards and compliance with the law and code of conduct.

Disclosure includes material information on the financial and operating results of, and any foreseeable risks for, the Company.

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### **Reports**

The Board ensures that reports accurately reflect the financial condition of the Company and the results of corporate operations.

Major risks facing the Company which are likely to affect its performance and financial condition (including underwriting risk, reinsurance risk, investment risk, geographical risk, operational risk and legal risk) and the approach proposed to be taken by Management in dealing with these risks are reported to the Board to enable the latter to effectively address said risks.

### **Audit**

The Board regularly reviews the system for securing adherence to key internal policies as well as significant laws and regulations that apply to the Company. An effective and comprehensive internal audit of the Company's internal control system is carried out by operationally-independent and competent staff, and audit findings and recommendations are reported to the Board and the Senior Management.

## **V PUBLIC ACCOUNTABILITY**

The Company, being in the business of insurance, ensures that its dealings with the public are always conducted in a fair, honest and equitable manner. Accordingly, officers of the Company should avoid conflicts of interest and are discouraged from engaging in any unfair or deceptive acts or conduct that constitute unfair trade practices to the detriment of stakeholders. These acts include, but are not limited, to the following:

Misrepresentations through false, deceptive or misleading statements, which include misrepresentations as to terms and benefits of insurance policies, the financial condition of the Company and information about competitors for the purpose of inducing a policyholder to lapse, forfeit, or surrender his policy;

Entering into any agreement to commit any act of boycott, coercion or intimidation resulting in a market monopoly of the insurance business; and

Knowingly committing or performing as a general business practice unfair claims settlement practices as defined in Section 241 of the Insurance Code.

## **VI FINANCIAL REPORTING**

The Board ensures timely and accurate disclosure on all material matters, including the financial condition, performance, ownership and governance of the Company.

The Board and senior management receive regular reports on all key aspects of the operations of the Company, which include an analysis of premium growth, underwriting performance, investment results, claims management and credit control, to provide a sound basis for assessing financial performance and condition, identifying real and potential problems and formulating appropriate policies and strategies.

The Board likewise ensures faithful compliance with the financial and other reportorial requirements under the Insurance Code.

### Access to information

Fair, timely, and cost-efficient access to relevant information are provided to all parties with a legitimate interest in the Company. Key financial information is readily and easily accessible to shareholders, policyholders, and creditors.