

Manual on Corporate Governance

This manual sets out principles and guidelines on corporate governance to which the Board of Trustees and Management of NATCCO Mutual Benefit Association, Inc. commit themselves.

I. Objective

This Manual aims to provide the framework and support necessary to institutionalize good corporate governance in NATCCO MBAI.

II. Commitment to Good Corporate Governance

We take corporate governance to mean “the framework of rules, systems and processes in the corporation that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to ***stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates.***”

With this understanding, NATCCO MBAI binds itself “to promote fairness, transparency and accountability” in all its corporate action and endeavours.

Fairness provides the assurance that all members have their rights protected and are treated equitably. Promoting long-term shareholder value is important:

Trustees shall devote time and attention necessary to properly discharge their duties and responsibilities, in return for the trust given them by members. The Board of Trustees has duty to direct and manage in a manner fair to all, and act with prudence and justice. Fairness is intimately related to ethical practice. The BOT has the ultimate responsibility for creating a culture that promotes ethical practice responsively throughout the corporation. A trustee must ensure that the company’s goals, strategies, policies, and practices are right, good, proper, moral and legal. A trustee shall not use his position to make profit or to acquire benefit or advantage for himself and/or related interests.

Accountability recognizes that the Board of Trustees is answerable to members. It is responsible for the actions of Management, which implements policies and strategic directions emanating from the Board. It involves assigning responsibility and measuring results, and the use of policies, plans, risk management systems and other systems of internal controls and accounting/reporting systems. It serves to maximize value while meeting the financial and other legal and contractual obligations. In brief, the BOT must answer for the consequences of action or inaction.

Transparency requires that that Board of Trustees ensure timely and accurate disclosure on all material matters, such as the financial situation, performance, including disclosure of any material foreseeable risks. It requires a system of checks and balances and a system of monitoring and reporting based on accepted standards of adequate disclosure for both financial and non-financial information. There should be clear dividing lines among members, trustees and managers. Whenever they cross

lines such as when trustees wear different hats (e.g. Chairperson/CEO) this should be disclosed accordingly.

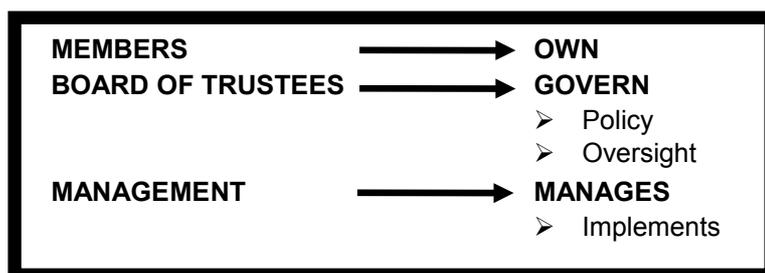
III. Basic Roles and Relationships

The General Membership, being the owners, holds supreme authority in the Association. It exercises this power through the General Assembly where it approves on an annual basis all official acts of the association and elects the members of the Board of Trustees.

The Board of Trustees, composed of non-executive trustees and headed by a non-executive chairperson, derives its power from the General Assembly by means of elections, governs by means of strategic decisions, policies and oversight, and is fully accountable to the General Assembly.

The management team, on the other hand, headed by the President, implements the strategic plans, policies and decisions of the Board of Trustees, and is accountable to the latter.

In diagram their respective positions and relationships would be something like this:



Trustees are the members’ representatives and thus are accountable to them. Once elected to the Board, a trustee takes on fiduciary responsibilities and he is not there to represent specific interests. Sitting as a Board, trustees provide strategic guidance to the Association, institute policy directives or approve policy initiatives of Management. They set standards of performance, monitor and oversee company performance. They are responsible for ensuring that Management is managing properly.

Being head of the governing body, the Board, the Chairperson should establish rapport with members and be accessible to them. The Chairperson, especially, should keep his nose in, but his hands off, the day-to-day working of the business – which is the responsibility of management. However, the Board is responsible for setting the direction towards which the company must go, not Management.

IV. Decision Areas of Board of Trustees and Management

| Board of Trustees | Management |
|---|---|
| Accountable to members | Accountable to Board |
| Concerned with idea decisions | Concerned with action decisions |
| Concerned with long-term decisions | Concerned with shorter-term decisions |
| Determines overall objectives | Decides how to carry out objectives |
| Establishes policies | Proposes policies and manages within approved policies |
| Approves goals | Proposes goals |
| Makes long-range plans, committing resources, facilities, finances and personnel | Handles intermediate and short-term commitment of resources, organization and control |
| Plans chief executive officer succession | Plans managerial succession in departments |
| Determines job responsibility, training and performance of directors and of the chief executive officer | Determines job responsibility, training and performance of other employed personnel |
| Sets standards of performance for directors and chief executive officer | Sets standards of performance for other employed personnel |
| Appraises organizational performance | Appraises operational results |
| Is resource to, and communicates with members | Is resource to BOT, keeping it informed on regular basis |

V. The Board of Trustees

1. 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 interest of ***its stockholders and other stakeholders***.
2. The Board provides leadership within a framework of prudent and effective controls which enable risks to be assessed and managed.
 - a. At least two (2) trustees must be independent, and all trustees must be non-executive. Independence shall mean that: (i) trustee has not been an officer or employee of the Association, its subsidiaries, affiliates or related interests, for at least three(3) years preceding term or incumbency; (ii) trustee is not be related within the fourth degree of consanguinity or affinity, legitimate or common-law, to any trustee or senior officer of the company or any of its related companies; and (iii) trustee is free from any business or other relationships with the institution or any of its related companies which could give rise to conflict of interest situation.

- b. The Board shall meet regularly to discharge its duties efficiently. A trustee who has been absent for three (3) consecutive or maximum of five (5) of all meetings, regular and special, for whatever reason, during incumbency, shall be disqualified, and in future may no longer be elected to the Board.
 - c. A formal and rigorous annual evaluation of the Board's own performance and that of its committees and individual trustees shall be undertaken.
 - i. The Chairperson of the Board shall hold meetings without the executives' presence to evaluate the executives' performance.
 - ii. The Board, led by an independent trustee, shall meet annually without the chairman's presence to appraise the chairperson's performance.
3. The Board sets company's values and standards, and aims.
 - a. Determines the company's corporate purpose, its vision, mission and core values, as well as the strategies to carry out its objectives.
 - b. Adopts a Strategic Plan, and approve corporate policies in core areas of operation, especially underwriting, reinsurance and claims management.
 - c. Establishes a system of check and balance applicable to the Board and its members.
 - d. Appoint a Compliance Officer responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.
 - e. Plans succession, including appointing, training, fixing the compensation of, and where appropriate, replacing senior management.
4. The Board ensures that necessary financial and human resources are in place for the company to meet its objectives and review management performance.
 - a. Reviews adequacy and integrity of Internal Control systems, Management Information systems, and compliance with the Insurance Code and other applicable laws, regulations, directives, directives and guidelines.
 - b. Adopts appropriate reporting system so that the Board can monitor, assess and control the performance of management.
 - c. Arranges for an appropriate trustees' and officers' compensation and/or other benefits.
 - d. Establishes adequate selection process for all personnel, applying the standards of integrity and technical expertise, and establishes, appropriate compensation package consistent with the interest of all stakeholders.
5. The Board ensures a high standard of the 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. The Board identifies 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.
 - b. The Association's annual report shall include how the Board operates, types of decisions to be followed by the Board and those that are to be delegated to management.
 - c. The Association's annual report shall also disclose the number of meetings of the Board as well as those committees and respective attendance.
 - d. Develops and implements an investor relation program or adopt member communications policy.
 - e. Presents to members a balanced and understandable assessment of the Association's performance and financial condition.

6. The Corporate Secretary works fairly and objectively with the Board, Management, stockholders **and other stakeholders**.

VI. The Board Committees, Essential Standards.

The Board of Trustees shall create committees as may be necessary, proper and/or convenient with powers authority to carry out their functions. All committees shall be headed by a trustee and all shall report directly to the Board of Trustees.

The Chair of a Committee is responsible for providing leadership to enhance effective and independent functioning of the Committee in order that it may fulfil its duties as herein outlined it subsequently elaborated in its own separate manual.

1. Oversight and Audit Committee

- a. Membership is to be composed of three members, headed by an independent trustee, with all members having the ability to read financial reports, and preferably with accounting/legal/finance background.
- b. Meetings. The committee shall meet at least every quarter, or as often as necessary.
- c. This Committee is an effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all **stockholders and other stakeholders**.
- d. Responsibilities:
 - i. Oversee the financial and disclosure process, including the performance of the internal audit and external audit functions; and provide first-instance review of reports coming from these sources.
 - ii. Monitor accounting policies and principles, as well as risk management policies; and ensure that such are always adequate, effective and in force.
 - iii. Monitor, coordinate and facilitate compliance with existing laws, rules and regulations.
 - iv. Act as internal audit arm of the Association.
 - v. Recommend approval for selection of external auditors.

2. *Corporate Governance & Education Committee

- a. Membership is to be composed of three members, headed by the vice chairperson, who is the ex-officio compliance officer.
- b. Meetings are to be held as often as necessary as but not less than two (2) times a year.
- c. Responsibilities:
 - i. Continually review and draft a proposed effective Manual on Corporate Governance, and spearhead the development of a culture of good corporate governance in the Board, management and general membership.
 - ii. Establish the expertise and capabilities needed in the Board and Management and acts as search, selection and nomination committee for those who will be trained to achieve this end.
 - iii. Evaluate the company's corporate governance practices at least every end of fiscal year.

3. Remuneration Committee

- a. Membership shall be composed of three (3) members, who are independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgment.
- b. Meetings. The committee shall meet at least two (2) times a year or as otherwise required by the Board. Only members of the Committee have the right to attend. However, other individuals such as the Executive(s) and external advisers may be invited to attend for all part of any meeting as and when appropriate. No person shall be present when his or her remuneration or contractual arrangements are discussed.
- c. Responsibilities:
 - i. Develop a compensation policy to attract, retain and motivate those people of the highest calibre who have the skills needed to achieve the Company's objectives year on year and which balances the interests of the shareholders, the Company and its employees.
 - ii. Determine and recommend for Board approval the policy and schedule for the compensation of Management, allowances of trustees and committee meetings, incentives, as well as all other monetary or quasi-monetary benefits
 - iii. Approve the design of, and determine targets for any performance related pay schemes operated by the Company and approve the total annual payments under such schemes.
 - iv. Ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is recognised.

4. Investment Committee

- a. Membership shall be composed of at least two (2) members, with the President being an additional ex-officio voting member. If the Chairperson of the Board is not a member of the Investment Committee, the Chairperson may attend Committee meetings and vote on Committee actions. In addition, up to two (2) additional individuals may be Advisors to the Committee and are welcome to participate in all aspects of Committee meetings and activities, except voting.
- b. Meetings shall be held as required by the Board but not less often than quarterly.
- c. Responsibilities:
 - i. Review and recommend for approval by the Board investment policies, including investment objectives and strategy.
 - ii. Select and approve the Advisors to the Committee, with the concurrence of the Board. Such advisors have a renewable one-year term and serve at the pleasure of the Committee and the Board.
 - iii. Recommend for Board approval the selection of investment managers, custodians, consultants and other investment professionals as appropriate.

5. Nomination (Election) Committee

- a. Membership shall be composed of three (3) members, to be headed by any qualified member. The committee shall exist even after elections and shall serve until successors have been appointed and qualified.
- b. Meetings shall be held at least two (2) times every year, in preparation of the General Assembly elections.
- c. Responsibilities:

- i. Formulate rules and regulations governing the conduct of nominations and elections during the annual members' meeting, as in special elections should such occur.
- ii. Prepare and issue ballots to be used and supervise the conduct of elections.
- iii. Canvass the votes and proclaim the results of the elections.
- iv. Certify the election returns by the Presiding Officer.

VII. Management

The main job of overseeing and managing all operations of the Association and implementation and review of policies and Board Resolutions through administrative action rests on the President. Reporting directly to the Board of Trustees, the President takes care of the day-to-day operations.

The President is principally accountable to the Board of Trustees, in much the same way that the Board of Trustees is answerable to the General Membership.

VIII. Disclosure and Transparency

1. It is essential that all material information about the corporation which could adversely affect its viability or the interest of ***its stockholders and other stakeholders*** should be publicly and timely disclosed. Such information should include, among other 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.
2. ***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 for listed companies and submissions to the Commission for the interest of its stockholders and other stakeholders.***

IX. Responsibility and Enforcement

1. Good governance shall be the main responsibility of the Board of Trustees and its Committees.
2. To strictly observe and implement the provisions of this Manual, any violation of its provisions by any member of the Board of Trustees shall be sufficient cause for removal from trusteeship.
3. The Compliance Officer shall be responsible for determining any violation of these provisions, and, subject to the requirements of due process, shall recommend to the Chairman of the Board proper action to be taken.