Table of Contents

CORPORATE GOVERNANCE MANUAL
of the
PHILIPPINE PUBLIC SCHOOL TEACHERS ASSOCIATION
(PPSTA)

I. Corporate Governance

The Philippine Public School Teachers Association (PPSTA), its Board of Trustees, Officers, and employees hereby adhere to the fundamental principles of sound corporate governance provided in this Manual of Corporate Governance, and acknowledge that the same are necessary components of sound strategic business management that will enhance the value of the Association to all its stakeholders.

The Association is firmly committed to good corporate governance in order to achieve policyholder and members' confidence and sustain the growth of the mutual benefit industry thereby contributing to the country's economic well being.

The corporate governance practices of the Association is principally contained in its Amended Articles of Incorporation and Amended By-laws and in addition, the Association crafted this Corporate Governance Manual pursuant to Securities and Exchange Commission (SEC) Memorandum Circular No.6 series of 2009 (Revised Code of Corporate Governance) issued on July 15, 2009 and Insurance Commission Circular 31-2005 dated September 26, 2005.

II. Definitions

1. **Corporate Governance** – is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized.

2. **Board of Trustees** – refers to the collegial body that exercise the corporate powers of a non-stock, non-profit corporation formed under the Corporation Code of the Philippines. The Board of Trustees conducts all business and controls or holds all properties of such corporation.

3. Management – refers to the body given the authority to implement the policies determined by the Board in directing the course of business activities and operations of the corporation.

4. Independent Trustee – refers to a person other than an officer or employee of the Association, or any other individual having any relationship with the corporation, which could interfere with the exercise of independent judgment in carrying out the responsibilities of a trustee. This means that apart from membership fees and dues with the Association, he should be independent of management and free from any business or other relationship that could materially interfere with the exercise of his independent judgment.

5. Member/Policyholder – the following may become members of the Association:

a. All teaching and non-teaching personnel of the Department of Education (DepEd); Technical Educational and Skills Development Authority (TESDA); and State Colleges and Universities including its components and affiliates or attached agencies;

b. Personnel of PPSTA and its local chapters;

c. Retirees or transferees previously belonging to (a) or (b) above; and

d. Independent Trustees during the duration of their term of office.

Membership in the Mutual Aid System (MAS) is obligatory on all members of the Association. Membership in all other programs is optional.

6. Internal Control - refers to the process effected by the Association's Board of Trustees, management and other personnel, designated to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws, regulations, and internal control policies.

7. Internal Control Environment - refers to the framework under which internal controls are developed, implemented, alone or in concert with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the company is exposed.

8. Business Risk - the threat an event or action will adversely affect an organization's ability to achieve its business objectives and execute its strategies successfully.

9. Actuarial Risk - risk which an insurance underwriter covers in exchange for premiums.

10. Risk Management - procedure to minimize the adverse effect of a financial loss by (a) identifying potential sources of loss; (b) measuring the financial consequences of a loss occurring; and (c) using controls to minimize actual losses or their financial consequences.

11. Internal Auditing - refers to an independent, objective assurance and consulting activity designed to add value and improve an organization's operation. It helps an organization accomplish its objectives by bringing a systematic, and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

12. Internal Audit Office - refers to a department, division, consultants, or other practitioners that provide independent, objective assurance and consulting services designed to add value and improve an organization's operation.

13. Independence - refers to that environment which allows the person to carry out his/her work freely and objectively.

14. Objectivity - refers to an unbiased mental attitude that requires a person to carry out his/her work in such manner that he/she has an honest belief in his/her work product and that no significant quality compromises are made. Objectivity requires the person not to subject his/her judgment to that of others.

15. Standards for the Professional Practice Internal Auditing (SPPIA) - refers to the criteria by which the operations of an internal auditing department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be, provide a framework for performing and promoting a broad range of value-added internal audit activities and foster improved organizational processes and operations.

16. Stakeholders - refer to the group of company owners, officers and employees, policyholders, suppliers, creditors and the community.

17. Affiliate - is a juridical person that directly or indirectly through one or more intermediaries, is controlled by, or is under common control with the insurance companies or its affiliates

18. Related interests - shall mean individuals related to each other within the fourth consanguinity or affinity, legitimate or common law, and two or more company owned or controlled by a single individual or by the same family group or the same group of persons.

III. <u>The Board of Trustees</u>

A. Responsibilities of the Board

The Board of Trustees shall:

1. Review and adopt a strategic plan for the company.

2. Oversee the conduct of the company's business to ensure that the business is being properly managed and dealings with policyholders, claimants and creditors are fair and equitable.

3. Identify principal business risks and ensure the implementation of appropriate risk management systems to specifically manage the underwriting, reinsurance, investment, financial, and operational risks of the company.

4. Approve corporate polices in core areas of operations, specifically underwriting, investments, reinsurance and claims management.

5. Plan succession, including appointing, training, fixing the compensation, and where appropriate, replacing senior management.

6. Develop and implement an investor relations program or adopt shareholder communications policy for the company.

7. Review the adequacy and the integrity of the company's internal control systems and management information systems including systems for compliance with the Insurance Code and other applicable laws, regulations, rules, directives and guidelines.

8. Select and appoint officers who are qualified to administer insurance affairs soundly and effectively and to establish an adequate selection process for all personnel.

9. Apply fit and proper standards on personnel. It must have integrity, technical expertise and experience in the institution's business, either current or planned, which should be the key considerations in the selection process.

10. Establish an appropriate compensation package for all personnel that are consistent with the interest of all its stakeholders.

11. Review and approve material transactions not in the company's ordinary course of business.

12. Establish a system of check and balance which applies to the Board and its members.

13. Have an appropriate reporting system so that the Board can monitor, assess and control the performance of management.

14. Present to all its members and policyholders a balanced and understandable assessment of the company's performance and financial condition.

15. Appoint a Compliance Officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.

16. The Board shall be entitled to the services of a Corporate Secretary who must ensure that all appointments are properly made, that all necessary information are obtained from the Trustees, both for the company's own records and for the purposes of meeting statutory obligations, as well as obligations arising from the requirements of the Insurance Commission (IC) and other regulatory agencies.

B. Powers of the Board of Trustees

Without prejudice to such powers as may be granted by law, the Board of Trustees shall have the following powers:

1. From time to time, to promulgate rules and regulations consistent with these by-laws, and to review, revise or amend the same when it deems necessary for the proper management of the Association's business and affairs.

2. To purchase, receive, take or otherwise acquire for and in the name of the PPSTA, any and all properties, rights, or privileges, including securities and bonds of other corporations, for such consideration and upon such terms and conditions as the Board may deem proper or convenient.

3. To invest the funds of the PPSTA in other corporations or for purposes other than those for which the Association was organized, subject to such approval of the members as may be required by law.

4. To incur indebtedness as the Board may deem necessary, to issue evidence of indebtedness including notes, deeds of trust, bonds, debentures, or securities, subject to such approval of the members as may be required by law, and/or pledge, mortgage, or otherwise encumber part of the properties of the PPSTA.

5. To establish pension, retirement, bonus, or other types of incentives or compensation plans for the members, employees, including officers and Trustees of the PPSTA.

6. To prosecute, maintain, defend, compromise, submit arbitration or abandon any lawsuit in which the PPSTA or its officers are either plaintiffs or defendants in connection with the affairs of the PPSTA.

7. To delegate, from time to time, any of the powers of the Board that may be lawfully delegated in the course of the current business of the PPSTA to any standing or special committee or to any officer or agent and to appoint any person to be an agent of the PPSTA with such powers and upon such terms as may be deemed fit.

8. To implement these By-Laws and to act on any other matter not covered by these By-Laws provided such matter does not require the approval or consent of the members of the PPSTA under the Corporation Code.

9. To appoint and dismiss any employee of the PPSTA, whether regular, probationary, casual, or contractual, fix or adjust their salaries and all other personnel movements.

10. To approve all contracts involving the sale of non-current assets.

11. To approve all contracts for construction and major repairs or maintenance work, and other contracts involving significant amounts.

12. To approve the accreditation of new local or regional chapters of the PPSTA.

13. To approve the disaffiliation or withdrawal of accreditation of any local or regional chapter; and

14. To delegate any of its powers or function to an executive committee or to any officer of the PPSTA.

C. Composition of the Board of Trustees[1]

The PPSTA Board of Trustees shall consist of one representative from each region, namely: Region I – Ilocos; Region II – Cagayan Valley; Region III – Central Luzon; Region IV – Calabarzon; Region IV-B – MIMAROPA; Region V – Bicol; Region VI – Western Visayas; Region VII – Central Visayas; Region VIII – Eastern Visayas; Region IX – Western Mindanao; Region X – Northern Mindanao; Region XI – Southern Mindanao/Davao; Region XII – Central Mindanao/SOCCSKSARGEN; Region XIII; Caraga; Autonomous Region in Muslim Mindanao (ARMM); Cordillera Administrative Region (CAR) and National Capital Region (NCR) and four (4) Independent Trustees elected in a manner provided under the Amended By-Laws.

The regional representative to the Board of Trustees shall be elected every three (3) years by the National Representative Assembly (NRA) during its regular meeting referred to in Section 4, Article IV of the Amended By-Laws from among the list of not exceeding two (2) nominees submitted and certified by the Regional Representative Assembly (RRA).

[1] As provided by PPSTA Amended By-Laws

The Independent Trustees shall be elected by the National Representative Assembly (NRA) upon the nomination of the Nomination Committee of the Board of Trustees. Notwithstanding the foregoing, for the duration that the Association is under a conservatorship of the Insurance Commissioner, the independent trustees shall be appointed by, and shall serve at the pleasure of, the Insurance Commissioner.

The elected members the Board of Trustees shall serve beginning January 1 immediately following their election for a term of three (3) years until their successors shall have been elected. Provided, that no member shall serve as member of the Board of Trustees for more than two (2) consecutive terms.

In case of vacancy in a trusteeship by reason of death, resignation, incapacity, or removal for any other cause of an elected board of trustees, the vacancy shall be filled by the region from where he comes by means of a special regional election. Permanent vacancies in the positions of the Independent Trustees shall be filled in the same manner as appointments thereto as specified in the second paragraph of Section 3, Article VII of the Amended By-Laws.

D. Board Committees

There shall be an Executive Committee of the Board of Trustees which shall consist of not less than three (3) and not more than five (5) to be chosen by the Board of Trustees from among themselves to monitor the operations and finances of PPSTA; to ensure that decisions of the Board are executed by management; and, where urgent circumstances require, to act for and in behalf of the Board on such matters subject to such guidelines and limitations duly approved by the Board.

The concurrence of at least a majority of the members of the Executive Committee shall be necessary to make an Executive Committee decision valid. All business transactions by the Executive Committee shall be subject to confirmation by the Board of Trustees at its next scheduled meeting. It shall be also be vested with the powers specified in Section 35 of the Corporation Code.

The President, the Vice President and the immediate past president, if still a member of the Board of Trustees, shall be ex-officio members of the Executive Committee. The other members of the Executive Committee shall be chosen such that the three main geographical regions of the country, i.e., Luzon, Visayas and Mindanao are represented in the committee.

The Board may create a Finance and Audit Committee, Personnel Committee, and other committees it may deem necessary, with not less than three (3) nor more than five (5) members each with such specific duties as it may deem proper.

Ad Hoc Committees may be created by the Board as the need arises.

The Executive Committee shall meet as frequently as necessary, but not more than twice a month. The other committees shall meet immediately before a regular and/or special meeting of the Board, except as may be otherwise authorized by the Board of Trustees.

E. Qualifications

1. Regular Trustees

Trustees sitting on the board in any insurance entity shall be possessed of the necessary skills, competence and experience, in terms of management capabilities preferably in the field of insurance or insurance-related disciplines. In view of the judiciary nature of insurance obligations, Trustees shall also be persons of integrity and credibility.

Every Trustee shall be a member of the Association whose membership should be recorded in the books of the corporation.

Each Trustee shall be at least twenty-five (25) years of age at the time of his appointment.

Each Trustee must have attended a special seminar on corporate governance conducted be a training provider accredited by the Insurance Commission.

Persons who have been judicially declared insolvent, spendthrift or unable to enter into a contract; or trustees/trustees, 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, shall not be qualified to be elected or appointed as member of the Board of Trustees of the Association.

2. Independent Trustees

An independent trustee shall be one who has not been an officer or employee of the corporation, its subsidiaries or affiliates or related interests for at least three (3) years immediately preceding his term or incumbency.

He or she is not related within the fourth degree of consanguinity or affinity, legitimate or common-law of any trustee, or officer of the company.

He or she is not acting as nominee or representative of any trustee of the Association, or any of its members and policyholders; and

He or she is free from any business or other relationships with the institution which could materially interfere with the exercise of his judgment.

F. Temporary Disqualification

Trustees/officers/employees disqualified from holding a trustee position for a specific/indefinite period of time:

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. Trustees 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 Trustees during their incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of 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. Trustees and officers of closed insurance companies and insurance intermediaries pending clearance from the Insurance Commission.
5. Trustees 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 by the Insurance Commission;
6. Trustees who failed to attend the special seminar on corporate governance. This disqualification applies until the trustee concerned had 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.

The Board may establish a fixed retirement age policy for trustees.

G. Permanent Disqualification

Trustees/officers/employees permanently disqualified from holding a trustee position:

1. Persons who have been convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft.
2. Persons who have been convicted by final judgment of the court for violation of insurance laws.
3. Persons with derogatory records with the NBI, court, police, Interpol and insurance authorities of other countries (for foreign trustees) 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 trustee. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity, and
4. Persons who are delinquent in the payment of their obligations as defined hereunder:

   4.a 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 trustee or officer; or at least two obligations with other insurance companies, under different credit lines or loan contracts;

   4.b Obligations shall include all borrowings from an insurance company, or its related companies obtained by:

   4.b.1 A trustee 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;

   4.b.2 The spouse or child under the parental authority of the trustee or officer;

   4.b.3 Any person whose borrowings or loan proceeds were credited to the amount of, or used for the benefit of a trustee or officer;

   4.b.4 A partnership of which a trustee or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and

4.b.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.

H. Duties and Responsibilities

The Regular Trustees and Independent Trustees shall:

1. Conduct fair business transaction with the insurance company to ensure that personal interest does not bias board decisions.
2. Trustees, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institutions cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic principle to be observed is that a trustee shall not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He shall avoid situations that would compromise impartiality.
3. Act honestly, in good faith, and with loyalty to the best interest of the institution, its members, policyholders and other stakeholders such as its policyholders, investors, borrowers, other clients and the general public. A trustee must always act in good faith with care which an ordinarily prudent man would exercise under similar circumstances, while a trustee shall always strive to promote the interest of all members and policyholders. He shall also give due regard to the rights and interests of other stakeholders.
4. Devote time and attention necessary to properly discharge their duties and responsibilities. Trustees shall devote sufficient time to familiarize themselves with the institution's business. They must constantly be aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the Board of Trustees.
5. Act judiciously. Before deciding on any matter brought before the Board of Trustees, every Trustee shall thoroughly evaluate the issues, ask questions and seek clarifications when necessary.
6. Exercise independent judgment. A Trustee shall view each problem/situation objectively. When a disagreement with others occurs, he shall carefully evaluate the situation and state his position. He shall not be afraid to take a position even though it might be unpopular. Corollarily, he shall support plans and ideas that he thinks will be beneficial to the Association.

7. Have a working knowledge of the statutory and regulatory requirements affecting the Association, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Insurance Commission (IC), and where applicable, the requirements of other government agencies. A Trustee shall also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

8. Observe confidentiality. Trustees must observe the confidentiality of non-public information acquired by reason of their position as Trustees. They may not disclose said information to any other person without the authority of the Board.

9. The Association shall furnish all of its Trustees a copy of the specific duties and responsibilities of the Board of Trustees as well as the specific duties and responsibilities of a Trustee within thirty (30) working days, in case of incumbent Trustees and at the time of election in case of Trustees elected after the issuance of the Corporate Governance Code.

10. The Trustees concerned shall each be required to acknowledge receipt of the copies of such specific duties and responsibilities and shall certify that they fully understand the same.

11. Trustees should appoint a Corporate Secretary who shall be a Filipino citizen capable of carrying out the duties to which the post entails and his removal shall be a matter for the entire Board to decide. The Corporate Secretary shall submit to the Commission, at the end of every fiscal year, an Annual Certification as to the attendance of the Trustees during Board meetings.

I. Board Meetings and Quorum Requirements

That the initial or organizational meeting of a newly elected Board of Trustees shall be held immediately after the conclusion of the National Representative Assembly (NRA) at which they were elected while the last meeting shall be held before the beginning of the NRA at which the new Board of trustees is scheduled to be elected.

The Board of Trustees shall meet regularly once a month at the main office of the PPSTA unless otherwise previously agreed upon by the members of the Board of Trustees. A special or emergency meeting of the Board of Trustees may be called by the President or the Corporate Secretary upon request of a majority of the incumbent members of the Board and at least three (3) days notice to all members of the Board. Notice of any meeting of the Board need not be in writing.

An official journal shall be kept to record the minutes of the meetings and all resolutions passed by the Board of Trustees during its three-year term which shall be consecutively numbered. The Secretary shall cause the publication of resolutions and other highlights of the Board meetings in the official publication of the PPSTA at the next issue subsequent to the Board meeting.

A majority of the members of the Board actually in office shall constitute a quorum at meetings of the Board and no action of the Board shall be valid unless approved by majority of the incumbent members of the Board en banc at a duly constituted meeting

The order of business at regular/special meeting of the Board of Trustees shall be a) Call to Order, b) Roll Call, c) Approval of Agenda, d) Consideration of the minutes of the previous meeting, e) Matters arising from the minutes, f) Unfinished business, g) Board Committee Reports, h) Management Report on Finances and Operations, i) New Business, j) Other Matters, and k) Adjournment.

J. Board Remuneration

The members of the Board shall not receive any salary but shall be entitled to gratuity, per diem and reimbursement of all necessary expenses incurred on account of attendance in Committee and Board meetings.

A form shall be developed on Full Business Interest Disclosure as part of the pre-employment requirements. For all incoming officers and senior managers, they shall declare under penalty of perjury all their existing business interests or shareholdings that may directly or indirectly affect the performance of their duties.

The Board shall review the existing Human Resources Development or Personal Handbook, to strengthen provisions on conflict of interest, salaries, and benefit policies, promotion and career advancement directories and compliance of the personnel concerned with all statutory requirements that must be periodically met in their respective posts

K. Performance Evaluation

A formal and rigorous annual evaluation of the Board's own performances and that of its Committees and individual Trustees shall be undertaken.

The President shall act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of each Trustee.

Performance evaluation of the Board, its Committees and its individual Trustees shall be conducted and reported in the Annual Report.

Performance evaluation of the President shall be made by the Board of Trustees, led by a senior Independent Trustee.

L. Information and Professional Development

The President shall be responsible for ensuring that the members of the Board of Trustees receive accurate, timely and complete information.

The President shall ensure that the Trustees continually update their skills, knowledge and familiarity with the Association's goals and objectives in order to fulfill their roles in the Board and/or Board Committees.

The Association shall provide the necessary resources in developing and updating its Trustees' knowledge and capabilities.

The Corporate Secretary through the President shall be responsible for advising the Board about governance matters.

The President shall ensure that the company provides an orientation and education program for new members of the Board of Trustees.

The Board shall ensure that the Trustees have access to independent professional advice at company's expense to discharge their responsibilities as Trustees. Board Committees shall be provided with sufficient resources to undertake their duties.

All Trustees shall have access to the advices and services of the Corporate Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. Both the appointment and removal of the Corporate Secretary shall be decided by the Board.

IV. Officers of the Association

The officers of PPSTA shall be a President, a Vice President, Secretary, General Manager, Administrative Officer, Treasurer, Chief Accountant and Auditor. The Board may from time to time, create other offices and appoint such other officers as it may determine to be necessary or proper.

The President, the Vice President and the Secretary shall be elected by the Board of Trustees during the organizational meeting of the Board from among themselves, with the exception of the Secretary who may not be a member of the

Board. The other officers of the PPSTA, i.e., the General Manager, Administrative Officer, Treasurer, Chief Accountant and Auditor shall be appointed by the Board upon nomination by the President

The term of office of the officers shall be co-terminus with the Board which elected/appointed them, unless sooner removed from office by a majority vote of all the members of the Board of Trustees. In case an office becomes vacant due to death, resignation, retirement, disqualification, incapacity or any other cause, of the incumbent, the Board of Trustees, by a majority vote, may elect/appoint a successor, who shall hold office for the unexpired term; provided, further, that in case of the temporary absence of any officer for any reason, the Board may delegate the powers and duties of such officer to another qualified person.

The officers of the PPSTA may be removed from office for cause, including nonfeasance or misfeasance of duties, violation of these By-laws, conduct detrimental to the interest of the Association, incompetence and/or loss of confidence.

The Secretary, General Manager, Administrative Officer, Treasurer, Chief Accountant and Auditor shall receive such salary and/or benefits as may be fixed by the Board. The President and the Vice-President shall receive no salary, but may receive allowances, in addition to per diems and other emoluments authorized for members of the Board of Trustees.

V. Accountability and Audit

The Board shall ensure that it has a timely and accurate disclosure of all material matters, including the financial condition, performance, ownership and governance of the Association.

A fair and timely cost-efficient access to relevant information shall be provided to all parties having legitimate interest in the company. Key financial information should be readily available to members, policyholders, creditors and claimants.

The Board and the senior management level shall receive regular reports on key aspects of the operations of the company. This shall include an analysis of premium growth, underwriting performance, investment results, claims management and credit control, which could provide a sound basis for assessing and identifying real and potential problems by formulating appropriate policies and strategies thereof.

The Board shall ensure faithful compliance with the financial and other reportorial requirements under the Insurance Code using a standard format provided by the Insurance Commission.

A. Oversight and Audit Committee

There shall be created an Oversight and Audit Committee composed of three (3) PPSTA members of good standing: one (1) from Luzon, one (1) from the Visayas and one (1) from Mindanao, to be elected by the National Representative Assembly (NRA). The Board of Trustees shall appoint an independent trustee as Chair of the Committee.

The Oversight and Audit Committee shall act as advisory council to the NRA and the Board of Trustees in reviewing the operations and financial performance of the Association in formulating strategic policies and programs, and in resolving other matters affecting the PPSTA. It shall render periodic reports and recommendations to the Board of Trustees, the summary of which shall be presented to the NRA during its triennial convention or as the need arises.

The Oversight and Audit Committee shall meet at least quarterly at the head office of the PPSTA.

The Oversight and Committee shall have the right to look at any and all records of the PPSTA, including the minutes of meeting of the Board of Trustees and other board materials.

The members of the Oversight and Audit Committee shall not be entitled to any salary but shall be entitled to per diem and reimbursement of expenses for attendance of officials meetings equal to those received by members of the Board of Trustees.

The members of the Oversight and Audit Committee shall serve for three (3) years, or co-terminus with the Board of Trustees.

In the event of the incapacity, death, resignation or removal of any member of the Committee, the candidate for member of the Committee from the same geographical region who garnered the next highest number of votes shall serve the unexpired portion of his term. Should the Chair become vacant, the other independent trustee shall be appointed to fill the vacancy

No member elected as a member of the Oversight Committee shall be eligible for election for any position during his term of office even if he resigns or is removed from office for any reason.

B. Internal Control and Risk Management

The Board shall ensure that an effective system of control is in place for safeguarding the Association's assets.

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

The Board shall ensure that reports accurately reflect the financial condition and the results of corporate operations.

The Board shall regularly review the system of securing adherence to key internal policies as well as to significant laws and regulations that apply to it. An effective and comprehensive internal audit of the Association's interal control system shall be carried out by independent and competent staff. Audit findings and recommendations shall be reported to the Board and the senior management level of the Association.

The Board shall protect members and policyholders' value through adequate financial controls. The Board shall foster and encourage a corporate environment of strong internal control, fiscal accountability, high ethical standards and compliance with the law and code of conduct.

C. Audit Commitment and Auditors

The Board shall establish an Internal Audit Office.

The Internal Audit shall be independent of the activities it audits and shall be done with impartiality and with due professional care.

The Internal Audit shall elevate to international standards the accounting and auditing processes, practices and methodologies.

The Internal Audit shall develop a definitive time table within which the accounting system of the Association will be 100% International Accounting Standard (IAS) compliant as well as furnishing an accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.

Corporate independence shall be maintained so as not to compromise the interests of members, policyholders, claimants, creditors, and other stakeholders.

D. Related Party Transaction

Overlapping interests in the insurance entity shall be disclosed to the Board and any material transaction involving such interests shall be similarly disclosed.

Related-party transactions shall be conducted in terms that are at least comparable to normal commercial practices to safeguard the best interest of the Association, its members, policyholders, creditors and claimants. In all cases, the provisions of Title 20, Chapter Ill of the Insurance Code shall be complied with.

Related party transactions shall be disclosed fully to the Board. Prior Board approval shall be obtained for related party transactions that are material in nature.

VI. <u>Relations with Members and Policyholders</u>

A. The National Representative Assembly

The highest policy making body of PPSTA shall be the National Representative Assembly (NRA) which shall consist of representatives of the local chapters of the PPSTA chosen in accordance with the provisions of these By-laws plus the current members of the Board of Trustees of the PPSTA and the presidents of the seventeen (17) regional chapters.

Each local chapter shall be entitled to at least one delegate to the NRA, who shall be the Division Chapter President, or in his absence, a member of the Board of Trustees of the local chapter who is duly designated for the purpose by the other members. Each local chapter may send as many delegates as it can afford, but not to exceed one delegate for every five hundred (500) bonafide members in good standing and a major fraction thereof.

The NRA shall have all the powers and functions of the general assembly of a non-stock non-profit organization, including more specifically, the following:

1. Approve and ratify any revision of the articles of incorporation and the by-laws of the Association;

2. Elect the members of the Board of Trustees;

3. Realign the composition of the regional chapters of the PPSTA;

4. Review and revise any of the policies and programs of the PPSTA;

5. Review, ratify or modify any decision of the Board of Trustees, and

6. Decide or act on any matter it may deem appropriate within the bounds of the PPSTA by-laws.

The NRA shall meet every 2d Saturday of December for its annual meeting and once in every three (3) years in December for the election of the members of the Board of Trustees. Special meetings of the NRA may be called by the PPSTA President, upon written request of at least one-half of the local chapters, or by the Board of Trustees, upon thirty (30) days notice sent to the President or the Secretary of each local chapter and the members of the Assembly.

---

* As amended on June 16. 2006 by the Board of Trustees and by more than two thirds of the members on September 30, 2006

The names of the delegates chosen by the local chapters shall be submitted to the PPSTA main office not later than thirty (30) days prior to the meeting of the NRA. Only regular and bonafide members who have paid continuously their regular fees and dues for the last five (5) years prior to the election shall be eligible for election as delegates to the NRA.

The President or in his absence, the Vice President, shall be the presiding officer of the NRA. The President shall have the power to designate a Pro-tempore Presiding Officer, Floor Leader and Secretary.

A majority of the delegates entitled to vote who are present or represented by proxies shall constitute a quorum of the NRA. A majority of such quorum shall decide any question or issue.

Only officially registered delegates to the NRA are entitled to take part in the deliberation and discussions of the Assembly and to vote and be voted Voting by proxy shall be allowed provided that the proxy comes from the same regional chapter as the delegate represented and is also an official delegate to the Assembly. Duly accomplished proxy forms must be presented for validation prior to the start of the meeting.

Meetings of the NRA shall be held in the main office of the PPSTA in Quezon City except when otherwise prescribed by the Board of Trustees provided that the proper notice is sent to all the members of the Assembly indicating the date, time and place of the meeting and that the place of the meeting shall be within the Philippines.

B. The Committee on Elections

There shall be created a PPSTA Committee on Elections (Comelec), an independent body that shall be composed of three (3) members: one (1) from Luzon, one (1) from Visayas and one (1) from Mindanao to be elected by the National Representative Assembly. The three (3) shall elect a Chairman among themselves.

The PPSTA Comelec is hereby vested the sole authority to conduct and supervise the elections for the members of the Board of Trustees and other officers and proclaim the winners. The Comelec shall likewise be the judge of all electoral contests, including questions on the qualification of candidates and its decision shall be final unless appealed to the Board of Trustees whose decision shall be final. Further, the PPSTA Comelec may be tasked to supervise the election in any local or regional chapter of the PPSTA.

The elected members of the Comelec shall serve beginning January 1 immediately after their election until after the next election.

In the event of the incapacity, death, resignation or removal of any member of the Comelec, the candidate for member of the Comelec from the same geographical region who garnered the next highest number of votes shall serve the unexpired portion of his term.

The Comelec shall formulate a set of comprehensive rules governing the conduct of elections of the PPSTA which shall become effective immediately upon approval by the Board of Trustees. The Comelec may, from time to time, formulate regulations to supply the details or implement said rules which shall likewise be effective upon approval by the Board of Trustees.

The Comelec may deputize such personnel of the head office of the PPSTA which it may deem necessary to enable it to perform its function.

The members of the Comelec shall not be entitled to any salary but shall be entitled to per diem and reimbursement of actual expenses for attendance of official meetings equal to those received by members of the Board of Trustees.

The Comelec shall meet at the head office of the PPSTA not later than fifteen (15) days prior to the meeting of the National Representative Assembly to prepare the forthcoming elections

No member elected as a member of the Comelec shall be eligible for election for any position during his term of office even if he resigns or is removed from office for any reason.

C. Dialogue with Members/Policyholders

The President shall ensure that the views of members and policyholders are communicated to the Board.

The President shall discuss governance and strategies with members and policyholders.

The members of the Board of Trustees shall be offered the opportunity to attend meetings with members and policyholders and shall be expected to attend when requested by them.

The Independent Trustees shall attend sufficient meetings with members and policyholders to listen to their views in order to develop a balanced understanding of the issues and concerns of the stakeholders.

VII. <u>Public Accountability</u>

The Board of Trustees, Officers and employees of the Association shall avoid conflicts of interest. They shall not engage in any unfair or deceptive acts or conduct that constitutes unfair trade practices detrimental to members, policyholders and claimants.

The Board of Trustees and the management of the Association shall commit themselves to the principles and leading practices contained in this Manual of Corporate Governance. The Board, the management, employees, members and policyholders, who believe that corporate governance is a necessary component of what constitutes sound strategic business management, will undertake every effort necessary to create awareness within the organization.

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

VIII. <u>Penalties for Non-Compliance with the Manual</u>

The Association shall establish an evaluation system to determine and measure compliance with this Manual. Violation thereof or non-compliance shall be subject to penalty as maybe determined by the Board of Trustees ranging from reprimand to removal from office.

IX. <u>Effectivity</u>

This Corporate Governance Manual of the Philippine Public School Teachers Association (PPSTA) shall take effect upon signing hereof.