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(Business Address: No. Street City / Town / Province)

<b>ATTY. SOLOMON M. HERMOSURA</b>
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Contact Person

<b>908-3346</b>
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Company Telephone Number

## Corporate Governance Manual

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Month                  Day

Fiscal Year

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FORM TYPE

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Annual Meeting

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Secondary License Type, if Applicable

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Amended Articles Number/Section \*

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Total No. Of Stockholders

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Document I.D.

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<b>STAMPS</b>
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31 May 2017

**MS. JUSTINA F. CALLANGAN** - *Division 5-31-2017*  
Director, Corporate Governance and Finance Department  
Securities and Exchange Commission  
Secretariat Building, PICC Complex,  
Roxas Boulevard, Pasay City 1307



Dear **Director Callangan**:

In compliance with SEC Memorandum Circular No. 19, Series of 2016, we are submitting our revised and updated Corporate Governance Manual, which was approved by our Executive Committee on 23 May 2017.

Thank you.

Very truly yours,

  
**SOLOMON M. HERMOSURA**  
*Compliance Officer*



**AYALA CORPORATION**

**CORPORATE GOVERNANCE MANUAL**

**2017**

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## CORPORATE GOVERNANCE POLICY AND FRAMEWORK

### POLICY

Responsible corporate governance is a constant and priority commitment of Ayala Corporation (hereafter, **we, our, Ayala or Corporation**). We believe that adherence to good corporate governance principles is essential for the achievement of our strategic goals. At Ayala, we believe in doing business with integrity and in full compliance with all laws and regulations. At the core of Ayala are four corporate values: integrity, long-term vision, empowering leadership, and commitment to national development.

### FRAMEWORK

Through the years, we have developed mechanisms to ensure that our corporate governance conforms to regulatory requirements and best practices, and that we pursue our goals ethically and honestly. Those mechanisms are set forth in this Corporate Governance Manual (adopted May 31, 2017), our Code of Conduct and Ethics, Policy on Conflict of Interest, Whistleblower Policy, Policy on Related Party Transactions and Enterprise Risk Management Policy (hereafter, the **Governance Codes and Policies**), our Articles of Incorporation (the **Articles**) and By-Laws (the **By-laws**), and the Charters of our Board of Directors (the **Board**) and its Committees (the **Charters**).

Copies of the current version of this Corporate Governance Manual, the Governance Codes and Policies, the Articles, the By-laws and the Charters are posted in our website. In compliance with the Code of Corporate Governance for Publicly Listed Companies (the **CG Code for PLCs**), particularly the guidelines on the contents of a corporation's manual on corporate governance, the Governance Codes and Policies, the Articles, the By-laws and the Charters are incorporated in this Corporate Governance Manual.

### Part One: Governance Structure

#### I. Board of Directors

In keeping with its mandate to foster the sustained success and competitiveness of the Corporation amidst the evolving global environment in a manner consistent with its fiduciary responsibility, the Board takes the helm in promoting the best practices of corporate governance.

#### COMPOSITION

*Size.* The Board shall have seven (7) members elected individually by our stockholders entitled to vote at their annual meeting. Majority of the Directors (the **Directors**) shall have no executive responsibility and shall not perform any work related to our operations (Non-Executive Directors).

*Diversity.* We are committed to having our Board comprised of qualified and dedicated Directors with a diverse mix of expertise, experience, skills and backgrounds. Diversity includes business experience, age, gender, and ethnicity. Nominees shall be selected based on merit.

#### TERM

Directors shall hold office for one year and until their successors are elected and qualified in accordance with the By-Laws.

## RETIREMENT AGE

No person eighty (80) years of age or older shall be eligible for election, re-election, appointment or re-appointments as a member of the Board.

## DIRECTORSHIP LIMITS

To ensure that our Directors devote adequate time and attention to their duties, we encourage our Independent Directors and Non-Executive Directors to hold no more than five (5) board seats in publicly listed companies (PLCs), and our Executive Directors to hold no more than two (2) board seats in PLCs outside our group. These limits may be waived by the Board at its discretion provided the interests of our stockholders and stakeholders are not prejudiced. The Board may also allow Executive Directors to hold directorships that are necessary or desirable in the pursuit of the Corporation's business.

## QUALIFICATIONS AND DISQUALIFICATIONS

Qualifications. A Director shall have the following:

1. Ownership of at least one (1) share of the capital stock of the Corporation at the time of his election;
2. A college degree or its equivalent or adequate competence and understanding of the fundamentals of doing business or sufficient experience and competence in managing a business;
3. Relevant qualification, such as previous business experience, membership in good standing in relevant industry, and membership in business or professional organizations;
4. Integrity, probity and diligence and assiduousness in the performance of his functions.

Permanent disqualifications. The following may be considered as grounds for the permanent disqualification of a Director:

1. Conviction by final judgment or order by a competent judicial or administrative body of any crime or violation punishable under the Securities Regulation Code (SRC), the Corporation Code or any other law administered by the Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation promulgated by the SEC or BSP, resulting in any of the grounds for the disqualification of a Director under the CG Code for PLCs;
2. Conviction by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
3. Judicial declaration of insolvency;
4. Conviction by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to those identified in the foregoing paragraphs;
5. Conviction by final and executory judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment; and

6. Being engaged in any business which competes with or is antagonistic to that of the Corporation as provided in the By-laws.

Temporary disqualification. The following are grounds for temporary disqualification of incumbent Directors:

1. Refusal to fully disclose the extent of his business interest as required under the SRC and its Implementing Rules and Regulations (**IRR**);
2. Absence from more than Seventy-Five Percent (75%) of all meetings, both regular and special, of the Board during any term, except if the absence or non-participation is due to illness, death in the immediate family or serious accident. In such case, the Director(s) concerned shall not be eligible for re-election in the succeeding election;
3. Dismissal or termination from directorship in another listed corporation for cause, unless and until the Director concerned has cleared himself of any involvement in the alleged irregularity;
4. Being under preventive suspension by the Corporation for any reason;
5. Conviction that has not yet become final, as referred to in the grounds for permanent disqualification of Directors.

Temporary disqualification shall be at the discretion of the Board and shall require a resolution of a majority of the Board.

A temporarily disqualified Director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

## **LEADERSHIP**

Chairman of the Board. The Chairman shall preside at all meetings of the Board and of the stockholders, exercise the powers given to him in the By-Laws, and perform the duties enumerated under the CG Code for PLCs as well as such other responsibilities as the Board may impose upon him.

The Corporation shall disclose the relationship between the Chairman and the Chief Executive Officer (**CEO**), if any, in its annual report to the SEC.

Vice-Chairman of the Board. In the absence of the Chairman, the Vice-Chairman shall preside at the meetings of the Board and stockholders.

## **INDEPENDENT DIRECTORS**

Number of Independent Directors. The Board shall have at least three (3) Independent Directors or such number as may be required by law.

Definition of an Independent Director. An Independent Director is one who:

1. is not, and has not been in the three years immediately preceding the election, a Director, officer, employee, or substantial stockholder of the Corporation, the Corporation's subsidiaries, associates, affiliates or related companies or the Corporation's substantial shareholders and its related



companies any of its substantial shareholders and the related companies thereof (other than as an Independent Director of any of the foregoing). In this context, “related company” means another company which is: (a) the Corporation’s holding company, (b) the Corporation’s subsidiary, or (c) a subsidiary of the Corporation’s holding company, and “substantial shareholder” means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security;

2. is not a relative of any Director, officer or substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders. For this purpose, “relative” includes spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
3. is not acting as a nominee or representative of a substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders, or of any of the Corporation’s Directors;
4. has not been employed in any executive capacity by the Corporation, any of its related companies or by any of its substantial shareholders within the last five (5) years;
5. is not retained as professional adviser, auditor, consultant, agent or counsel of the Corporation, any of its related companies or any of its substantial shareholders within the three (3) years immediately preceding the date of his or her election, either personally or through his firm or is otherwise independent of Management and free from any business or other relationship within the same period;
6. has not engaged and does not engage in any transaction with the Corporation or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a Director or substantial shareholder, other than transactions which are conducted at arms’ length and are immaterial or insignificant; or could not materially interfere with or influence the exercise of his independent judgment.

The types of transaction or affiliation under this paragraph which disqualify one from becoming an Independent Director include:

- 6.1 personal service contracts with the Corporation, or any of its related companies, or its senior management;
- 6.2 being affiliated with a significant customer or supplier of the Corporation or any of its related companies. For this purpose, a person shall be deemed to be affiliated with a party if such person (a) has a direct or indirect ownership interest in, or (b) is employed by such party;
- 6.3 being affiliated with a non-profit organization that receives significant funding from the Corporation, or any of its related companies;
- 6.4 being a member of the immediate family of an individual who is, or has been during the past five years, employed by the Corporation or any of its related companies as an executive officer; or
- 6.5 being affiliated with or employed by a present or former auditor of the Corporation, or any of its related companies in the past five years.

7. has not been appointed in the Corporation, its subsidiaries, associates, affiliates or related companies as Chairman “Emeritus”, “Ex-Officio” Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding his election;
8. is not a securities broker-dealer of listed companies and registered issuers of securities. “Securities broker-dealer” refers 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 Philippine Stock Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;
9. is not affiliated with any non-profit organization that receives funding from the Corporation or any of its related companies or substantial shareholders; and
10. is not employed as an executive officer of another company where any of the Corporation’s executives serve as Directors.

An Independent Director shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with the Corporation, Management or controlling shareholder at the time of his election or appointment and/or re-election as a Director.

Disqualifications. An Independent Director shall no longer qualify as such if, during his tenure:

1. he becomes an officer or employee of the Corporation or becomes any of the persons enumerated above;
2. his beneficial security ownership in the Corporation or in its related companies exceeds two percent (2%), in which case the Corporation shall forthwith cease to consider him as an Independent Director until his beneficial security ownership is reduced to two percent (2%) or lower;
3. he fails to meet the attendance requirement as set forth in Section 5.3 of the Board Charter.

Term limit. In accordance with SEC Memorandum Circular No. 9, Series of 2011, an Independent Director, after serving for nine (9) years, shall be perpetually barred from being elected as such in the Corporation, without prejudice to being elected as a non-Independent Director in the Corporation and as an Independent Director in other companies outside of the business conglomerate, where applicable, under the same conditions provided for in the rules and regulations of the SEC. In case the Corporation wants to retain an Independent Director who has served for nine (9) years already, the Board should provide meritorious justifications and seek shareholders’ approval during the annual shareholders’ meeting.

Lead Independent Director. A Lead Independent Director shall be appointed if the Chairman of the Board is not independent from Management, such as when the positions of the Chairman of the Board and the CEO are held by one person. The Lead Independent Director shall, among others:

1. intermediate between the Chairman of the Board and the other Directors, if and when needed;
2. convene and chair the periodic meetings of the Non-Executive Directors with the external auditor and heads of internal audit, compliance and risk, as may be needed; and
3. contribute to the performance evaluation of the Chairman of the Board.

## TRAINING

All new Directors of the Corporation shall undergo at the minimum an eight-hour orientation program on the Corporation's business and corporate structure, vision and mission, corporate strategy, Governance Codes and Policies, Articles, By-Laws, this Manual, the Charters, the SEC-mandated topics on governance matters and other matters essential for the effective performance of their duties and responsibilities.

Directors shall attend a four-hour annual continuing training program involving courses on corporate governance at least once a year.

## ROLES AND RESPONSIBILITIES

The Board. The Board shall perform all the functions provided under the By-Laws as well as the Board Charter and shall:

1. oversee the development of and approve the Corporation's business objectives and strategy and monitor their implementation to sustain its long-term viability and strength;
2. select, appoint and assess the performance of the President, CEO, Chief Operating Officer (COO), and other senior officers including the Chief Finance Officer, Chief Risk Officer, Compliance Officer and Chief Audit Executive in accordance with the process and criteria set in the Board Charter;
3. adopt a professional development program for employees and officers, and an effective succession planning program for Directors, key officers, and management in the Corporation in accordance with the criteria set in the Board Charter and Charter of the Corporate Governance and Nomination Committee;
4. establish an effective performance management framework to align Management's performance with the standards and criteria set by the Board and Senior Management;
5. formulate and adopt a policy for the Board's and key officers' compensation programs aligned with work required and performance against business plans;
6. provide sound written policies and strategic guidelines on key capital expenditures, and periodically evaluate and monitor implementation of such strategies;
7. ensure that the Corporation complies with all relevant laws, regulations and as far as possible, best business practices;
8. formulate a clear communication and disclosure policy and strategy to accurately, promptly, regularly and effectively communicate with the SEC, the Philippine Stock Exchange (PSE) and the Corporation's stockholders and other stakeholders and oversee the proper and effective implementation thereof;
9. adopt a system of internal checks and balances within the Board and the Corporation for monitoring and managing potential conflicts of interest of the Management, the Board members and shareholders, that shall be regularly reviewed and updated to maintain its adequacy and effectiveness, and in this connection, approve the Internal Audit Charter;

10. ensure that there is sound Enterprise Risk Management (ERM) framework to identify and monitor key risks and key performance areas, and endeavor to provide appropriate technology and systems for the proper identification and monitoring thereof;
11. formulate and implement policies and procedures that would ensure the integrity, transparency and would guarantee fairness of related party transactions including other unusual or infrequently occurring transactions exceeding thresholds of materiality between and among the Corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and Directors, including their spouses, children and dependent siblings and parents, and that of interlocking director relationships by members of the Board;
12. establish and make available an alternative dispute resolution mechanism in the Corporation that can amicably settle intra-corporate disputes;
13. create an internal self-rating system for the annual performance self-assessment of the Chairman of the Board, the individual Directors, the board committees, the CEO, President and COO and other key management officials in accordance with the process and criteria laid down in the Board Charter, and in line with the Corporation's plans and objectives;
14. develop a formal and transparent policy for nomination and election of Directors;
15. cause the Corporation to participate in the Corporate Governance Survey using the ASEAN Corporate Governance Scorecard;
16. be responsible for financial reporting and control, and in this connection, shall:
  - 16.1 provide to all stockholders and other stakeholders relevant and timely information about the Corporation, including but not limited to a semestral report and an annual report of the Corporation's performance, position and prospects through publicly available reports submitted to the SEC;
  - 16.2 present a balanced and understandable assessment of the Corporation's position and prospects. This extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements;
  - 16.3 explain its responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
  - 16.4 report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
  - 16.5 maintain a sound system of internal control to safeguard stockholders' and other stakeholders' investment and the Corporation's assets;
  - 16.6 ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls within the Corporation;
  - 16.7 require the Chief Audit Executive to render to the Audit Committee an annual report on the Internal Audit department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit Committee. Such annual

report should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management;

17. recommend to the stockholders the appointment of external auditors, in accordance with the recommendation of the Audit Committee;
18. create a procedure for Directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the Corporation's expense, which expense shall be reasonable;
19. create and design a Code of Conduct with an anti-corruption policy and programs suitable to the needs of the Corporation and ensure proper and efficient implementation and monitoring of compliance with the Code, including providing appropriate orientation and training to the Board, senior management and employees.;
20. establish a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation, and to have direct access to a unit created to handle whistleblowing concerns and ensure its enforcement;
21. adopt a globally-recognized standard or framework in reporting sustainability and non-financial issues such as economic, environmental, social and governance issues of the Corporation's business;
22. establish policies, programs and procedures covering, among others. the following; (1) health, safety and welfare; (2) training and development; and (3) reward/compensation, that will encourage employees to actively participate in the realization of the Corporation's goals and in its governance; and
23. establish Board Committees which will have their respective Charters providing for their purposes, structures, operations, reporting processes and performance standards.

Each Director. In addition to performing the duties prescribed by the Corporation's By-Laws and existing relevant statutes, each Director is expected to:

1. act in the best interest of the Corporation, the stockholders and the stakeholders in a manner characterized by transparency, accountability and fairness;
2. engage in fair business transactions with the Corporation and ensure that his personal interests do not create any bias when making Board decisions;
3. abstain from taking part in deliberations for transactions where he has a material interest in;
4. attend and actively participate in all meetings of the Board, the Board Committees where he is a member of, and the shareholders, except when prevented by justifiable causes;
5. act judiciously on a fully informed basis, in good faith and with due diligence and care;
6. exercise independent judgment;
7. have a working knowledge of the statutory and regulatory requirements affecting the Corporation;

8. keep confidential all non-public information acquired by reason of his Board membership;
9. ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment;
10. attend and participate in the training program of the Corporation; and
11. notify the Board, through the Corporate Secretary, before accepting a directorship in another Corporation.

## CONDUCT OF MEETINGS

Members of the Board shall attend regular and special meetings of the Board in person or via teleconference or videoconference or by any other technological means allowed by the SEC.

The Board may, to promote transparency, require the presence of at least one (1) Independent Director in all of its meetings. However, the absence of an Independent Director shall not affect the quorum requirement if he is duly notified of the meeting but notwithstanding such notice, fails to attend.

The Board shall meet at least six (6) times each calendar year. It shall hold a meeting before the start of the financial year, immediately after the annual meeting of the stockholders, at least once every quarter, and on such other days that it may designate.

It may be convened in a special meeting by the Chairman or upon the request of at least three (3) Directors.

Two-thirds (2/3) of the number of Directors as fixed in the articles of incorporation shall constitute a quorum for the transaction of corporate business.

## BOARD COMMITTEES

1. The Board currently has the following Committees to aid and support it in the effective performance of its functions:
  - 1.1 An Audit Committee, which is primarily responsible for ensuring that adequate, effective and adequate financial reporting, internal control, internal and external audit, and compliance systems are established and maintained. The Committee shall be composed of at least three (3) Non-Executive Directors, majority of whom shall be Independent Directors chaired by an Independent Director, who is not the chair any other the Committee. The Chairman should not be the chairman of the Board or of any other committees.
  - 1.2 A Corporate Governance and Nomination Committee, which is tasked to ensure that good corporate governance principles and practices are being complied with and observed by the Corporation, and to determine the nomination and election process for the Corporation's Directors. The Committee shall be composed of at least three (3) Directors, all of whom shall be Independent Directors.
  - 1.3 A Board Risk Management and Related Party Transactions Committee, which is responsible for the oversight of the Corporation's Enterprise Risk Management (ERM) system and for the review of all material related party transactions of the Corporation. The Committee shall be composed of at least three (3) Non-Executive Directors, majority of whom shall be Independent Directors. An

Independent Director shall chair the Committee. The Chairman should not be the chairman of the Board or of any other committee.

- 1.4 An *Executive Committee*, which shall act on such specific matters within the competence of the Board as may from time to time be delegated to it in accordance with the By-Laws. The Committee shall be composed of not less than three (3) but not more than five (5) members, majority of whom shall be citizens of the Philippines, and shall designate among the members of the Committee a Chairman and a Vice Chairman. The Board may, from time to time, increase the membership of the Committee, and appoint additional members therein, who may or may not be Directors.
- 1.5 A *Finance Committee*, which oversees the Corporation's capital allocation process as well as its treasury activities and policies. The Committee shall be composed of such number of members as the Board may designate but in no case less than (3) members, majority of whom shall be existing Board members. The Chairpersons of the Audit Committee and the Finance Committee shall not sit as members in both committees.
- 1.6 A *Personnel and Compensation Committee*, which has the responsibility of establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and Directors, ensuring that compensation is consistent with the Corporation's culture, strategy and control environment and aligned with the long-term interests of the Corporation and stakeholders. The Committee shall be composed of at least three (3) members, one of whom shall be an Independent Director.
- 1.7 A *Committee of Inspectors of Proxies and Ballots*, which validates the proxies submitted by the stockholders and counts and tabulates the votes cast at the stockholders' meetings of the Corporation. The Committee shall be composed of three (3) members who need not be Directors or stockholders.

All the Board Committees have their own Charters stating their respective purposes, memberships, structures, operations, and processes.

#### **LIABILITY OF DIRECTORS**

Directors who willfully and knowingly vote or consent to patently unlawful acts of the Corporation or who are guilty of gross negligence or bad faith in directing the affairs of the Corporation or acquire any personal or pecuniary interest in conflict with their duty as such Directors, shall be liable jointly and severally for all damages resulting therefrom suffered by the Corporation, its stockholders and other stakeholders.

When a Director attempts to acquire or acquires, in violation of his duty, any interest adverse to the Corporation in respect of any matter which has been reposed in him in confidence, as to which equity imposes a disability upon him to deal in his own behalf, he shall be liable as a trustee for the Corporation and must account for the profits which otherwise would have accrued to the Corporation.

#### **PERFORMANCE ASSESSMENT**

The Board shall undergo a formal assessment process annually whereby each Director will complete a questionnaire relating to the role, composition, processes, practices and behavior of the Board, its members, the Chairman and the Committees. Responses to the questionnaires are confidential and provided to the Compliance Officer, who shall report the aggregated results to the Board during the meeting immediately following the end of the assessment process.

The performance assessment shall be conducted by an independent third party consultant every three years.

#### **REMUNERATION**

The Board of Directors shall have the sole authority, in accordance with the By-laws, to determine the amount, form and structure of the fees and other compensation of the Directors ensuring that the level of compensation should fairly pay for the work required in a company of the Corporation's size and scope.

In no case shall the total yearly compensation of such Directors exceed one percent (1%) of the net income before tax of the Corporation during the preceding year.

No Director shall be involved in deciding his own remuneration during his incumbent term.

#### **SUPPORT FROM KEY OFFICERS**

In performing its duties, the Board shall be assisted by the Corporate Secretary and the Compliance Officer, both of whom should not be members of the Board of Directors and should annually attend a training on corporate governance.

1. Corporate Secretary. The Corporate Secretary shall be a resident and citizen of the Philippines and shall:
  - 1.1 assist the Board and the Board Committees in the conduct of their meetings, including preparing an annual schedule of Board and Committee meetings and the annual Board calendar, and assisting the chairs of the Board and its Committees to set agendas for those meetings;
  - 1.2 safekeep and preserve the integrity of the minutes of the meetings of the Board and its Committees, as well as other official records of the Corporation;
  - 1.3 keep abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the Corporation, and advise the Board and the Chairman on all relevant issues as they arise;
  - 1.4 work fairly and objectively with the Board, Management, and stockholders and contribute to the flow of information between the Board and Management, the Board and its Committees, and the Board and its stakeholders, including shareholders;
  - 1.5 advise on the establishment of Board Committees and their terms of reference;
  - 1.6 inform members of the Board, in accordance with the By-laws, of the agenda of the meetings at least five working days in advance, and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
  - 1.7 attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
  - 1.8 perform required administrative functions;
  - 1.9 oversee the drafting of the By-laws and ensures that they conform to regulatory requirements; and



- 1.10 perform such other duties and responsibilities as may be provided by the SEC, and as the Board may impose upon him.

The Board shall have separate and independent access to the Corporate Secretary.

2. **Compliance Officer.** The Compliance Officer, who shall hold the position of a Managing Director, shall:
  - 2.1 ensure proper onboarding of new Directors (i.e. orientation on the Corporation's business, charter, Articles of Incorporation and By-laws, among others);
  - 2.2 monitor, review, evaluate and ensure the compliance by the Corporation, its officers and Directors with the relevant laws, the CG Code for PLCs rules and regulations and all governance issuances of regulatory agencies;
  - 2.3 report to the Board if violations are found and recommend the imposition of appropriate disciplinary action;
  - 2.4 ensure the integrity and accuracy of all documentary submissions to regulators;
  - 2.5 appear before the SEC when summoned in relation to compliance with the CG Code for PLCs;
  - 2.6 collaborate with other departments to properly address compliance issues, which may be subject to investigation;
  - 2.7 issue an Annual Corporate Governance Report (ACGR) that is duly signed by the Chairman and CEO, the President and Chief Operating Officer, and two Independent Directors of the Corporation every five (5) years,
  - 2.8 issue a Consolidated Changes in the ACGR that is duly approved by the Board yearly.
  - 2.9 provide the SEC at the end of every fiscal year with a sworn certification that the requirement for Independent Directors and their attendance at meetings in accordance with Sec. II (7) of SEC Memorandum Circular No. 2 has been complied with. The said certification may be submitted with the Corporation's current report (SEC Form 17-C) or on a separate filing;
  - 2.10 identify possible areas of compliance issues and work towards the resolution of the same;
  - 2.11 ensure the attendance of Board members and key officers to relevant trainings; and
  - 2.12 perform such other duties and responsibilities as may be provided by the SEC.

## **II. Management**

The executive officers of the Corporation include the:

1. **CEO (CEO).** The CEO has the following responsibilities, among others:
  - 1.1 determine the Corporation's strategic direction and formulate and implement its strategic plan on the direction of the business;

- 1.2 communicate and implement the Corporation's vision, mission, values and overall strategy and promote any organization or stakeholder change in relation to the same;
- 1.3 oversee the operations of the Corporation and manage human and financial resources in accordance with the strategic plan;
- 1.4 possess a good working knowledge of the Corporation's industry and market and keep up-to-date with its core business purpose;
- 1.5 direct, evaluate and guide the work of the key officers of the Corporation;
- 1.6 manage the Corporation's resources prudently and ensure a proper balance of the same;
- 1.7 provide the Board with timely information and interface between the Board and the employees;
- 1.8 build the corporate culture and motivate the employees of the Corporation; and
- 1.9 serve as the link between internal operations and external stakeholders.
2. President. Subject to other responsibilities that the Board may impose upon him, the President shall:
  - 2.1 have general supervision of the business, affairs, and property of the Corporation, and over its employees and officers;
  - 2.2 see to it that all orders and resolutions of the Board are carried into effect;
  - 2.3 submit to the Board as soon as possible after the close of each fiscal year, and to the stockholders at the annual meeting, a complete report of the operations of the Corporation for the preceding year, and the state of its affairs; and
  - 2.4 report to the Board from time to time all matters within its knowledge which the interest of the Corporation may require to be brought to its notice.
3. Treasurer. The Treasurer shall be in charge of the funds, securities, receipts and disbursements of the Corporation. He shall have the following functions:
  - 3.1 deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of the Corporation in Board-designated banks, trust companies, bankers or other depositories;
  - 3.2 regularly and at least every quarter render to the President or the Board an account of the Corporation's fund condition and transactions;
  - 3.3 ensure fund availability on a timely and economical basis;
  - 3.4 optimize yields in temporary excess funds;
  - 3.5 provide relevant and timely capital market information; and
  - 3.6 ensure there is appropriate coverage for risks to resources.

4. Chief Finance Officer (CFO). The CFO shall be responsible for the following acts:
  - 4.1 provide Management with accurate, relevant, and timely operating and financial reports and analysis necessary for financial planning and strategy formulation, and monitor actual implementation of budgets, plans and programs towards the achievement of corporate goals;
  - 4.2 maintain the integrity of accounting records as the basis of financial statements and reports provided to Management and to government regulatory bodies in compliance with statutory requirements;
  - 4.3 promote investor confidence in the Corporation by addressing the various information requirements of the investing public and ensuring that all other legal reportorial obligations to various entities are complied with;
  - 4.4 strengthen internal controls by monitoring compliance with policies; recommend to management appropriate actions and changes in systems and procedures as necessitated by circumstances.
5. Chief Risk Officer (CRO). He is tasked with:
  - 5.1 supervising the entire Enterprise Risk Management (ERM) process and spearhead the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
  - 5.2 communicating top risks and the status of the implementation of risk management strategies and action plans to the Board Risk Management and Related Party Transactions Committee;
  - 5.3 collaborating with the CEO in updating and making recommendations to the Board Risk Management and Related Party Transactions Committee;
  - 5.4 suggesting ERM policies and related guidance, as may be needed; and
  - 5.5 providing insights on whether risk management processes are performing as intended, risk measures reported are continuously being reviewed by risk owners for effectiveness, and established risk policies and procedures are being complied with.
6. Chief Audit Executive (CAE). He shall preferably be a certified public accountant, shall head the Internal Audit group of the Corporation and shall report to the Audit Committee. His responsibilities include:
  - 6.1 periodically reviewing the Internal Audit Charter and presenting it to Management and the Audit Committee for approval;
  - 6.2 establishing a risk-based internal audit plan;
  - 6.3 communicating the Internal Audit group's activity plans, resources requirements and limitations, and significant interim changes to Management and the Audit Committee;
  - 6.4 spearheading the performance of the internal audit activities; and
  - 6.5 reporting and presenting findings and recommendations to the Audit Committee and advising Management on improvement of internal processes.

The retirement age for Management shall be in accordance with the compulsory retirement age prescribed under the Labor Code of the Philippines.

### **III. Charters and Governance Codes and Policies**

The Charters and the Governance Codes and Policies, together with their amendments, are posted on the Corporation's website and are deemed incorporated into this Manual.

## **Part Two: Internal Control System**

### **I. Internal Audit and Risk Management**

#### **INTERNAL AUDIT**

The Corporation's Internal Audit group shall provide independent and objective assurance and advisory services to the Corporation. It shall review, audit and report on the effectiveness of the Corporation's controls, taking into account the nature and complexity of the business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology and regulatory compliance. The Internal Audit Group shall perform its work in adherence to the Institute of Internal Auditors' "Code of Ethics" and the Corporation's Code of Conduct and Ethics. It shall also conduct its activities in accordance with the International Standards for the Professional Practice of Internal Auditors and guided by the COSO framework of internal control.

It shall perform its auditing functions faithfully by maintaining its independence from the Management and the controlling shareholders.

Its specific dues and responsibilities are as follows:

1. Assist the Board and the Audit Committee in discharging its governance responsibility;
2. Evaluate and provide reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the Corporation's strategy, objectives and goals to be met;
3. Report risk management issues and internal controls deficiencies identified directly to the Audit Committee and provide recommendations to improve the company's operations, in terms of both efficient and effective performance;
4. Evaluate information security and associated risk exposures;
5. Evaluate regulatory compliance program with consultation from legal counsel and other relevant units or external advisors, as may be necessary;
6. Evaluate the Corporation's readiness in case of business interruption;
7. Maintain open communication with Management and the Audit Committee;
8. Team with other internal and external resources as appropriate for assurance and advisory work;

9. Engage in continuous education and staff development; and
10. Provide support to the Corporation's anti-fraud and whistleblower programs.

## **RISK MANAGEMENT**

The Corporation's CRO shall design, implement and maintain an effective ERM framework and program for the Corporation taking into account its size, risk profile and complexity of operations. The Group Risk Management and Sustainability Unit shall support the CRO by formulating risk management strategies, developing tools and techniques for risk assessment, and monitoring and reporting on key and emerging risks.

### **II. External Audit**

The Board, through the Audit Committee, shall recommend to the stockholders a duly accredited external auditor who shall undertake an independent audit and shall provide an objective assurance on the way in which the financial statements shall have been prepared and presented.

The external auditor shall be rotated every five (5) years or earlier, or the handling partner shall be changed.

The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Corporation's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which if not resolved to the satisfaction of the former auditor, would have caused making reference to the subject matter of the disagreement in connection with its report.

### **III. Related Party Transactions (RPT)**

The Board, with the assistance of its Board Risk Management and Related Party Transactions Committee, reviews and approves the material RPTs of the Corporation in accordance with the Corporation's Policy on RPT.

### **IV. Whistleblower Policy**

The Corporation's Whistleblower Policy provides a formal mechanism and an avenue for Directors, officers, employees, suppliers, business partners, contractors and sub-contractors, and other third parties to raise concerns about a perceived wrongdoing, malpractice, or a risk involving the company. The policy likewise provides an assurance that a whistleblower will be protected from reprisals, harassment, or disciplinary action or victimization for whistleblowing.

The whistleblower may submit a written report directly to the Office of the Compliance Officer, or by e-mail to [whistleblower@ayala.com.ph](mailto:whistleblower@ayala.com.ph), or through a face-to-face meeting with any member of the Disclosure Committee composed of one representative each from the Office of the General Counsel, Strategic Human Resources, Internal Audit, and Group Risk Management and Sustainability.

There is an established Investigation Committee and investigation process to look into reported violations of company policies, rules, and regulations. All reports are treated in confidence and discussed with the Audit Committee who monitors the resolution and closure of all reports.

## **Part Three. Promotion of Shareholders' Rights and Engagement of Stakeholders**

### **I. Shareholders' Rights**

The Board shall promote shareholders' rights, remove impediments to the exercise of shareholders' rights and provide effective redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms.

#### **VOTING RIGHTS**

All shareholders, including minority shareholders, have the right to nominate, elect, remove and replace Directors and vote on certain corporate acts in accordance with the Corporation Code.

A shareholder may submit written nominations to the Corporate Governance and Nomination Committee at least thirty (30) business days before the next annual meeting of the stockholders. Nominees will be evaluated by the Corporate Governance and Nomination Committee which shall determine whether the nominees have all the qualifications and none of the disqualifications to serve as member of the Board before submitting the nominees for election by the stockholders. The profiles of the nominees to the Board will be provided in the Information Statement and in the Corporation's website for examination by the stockholders.

The Corporation shall allow voting in absentia by sending out to each stockholder ballot with a proxy form, which should be submitted within the prescribed period. The votes in the ballot would be counted even if the stockholder does not attend personally or by proxy.

Cumulative voting shall be used in the election of Directors. Directors may be removed with or without cause, but Directors shall not be removed without cause if it will deny minority shareholders representation in the Board. Removal of Directors requires an affirmative vote of two-thirds (2/3) of the outstanding capital of the Corporation.

#### **PRE-EMPTIVE RIGHTS**

All stockholders have pre-emptive rights, unless there is a specific denial of this right in the Articles of Incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the Corporation. The Articles of Incorporation may lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which are protected by law so long as they are not in conflict with the Corporation Code.

#### **RIGHT OF INSPECTION**

Shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be provided an annual report, including financial statements, without cost or restrictions.

#### **RIGHT TO INFORMATION**

Upon request and for a legitimate purpose, a shareholder shall be provided with periodic reports which disclose personal and professional information about the Directors and officers and certain other matters such as their holdings of the Corporation's shares, dealings with the Corporation, relationships among Directors and key officers, and the aggregate compensation of Directors and officers. The Information Statement/Proxy Statement where these are stated must be distributed to the shareholders before annual

general meetings and in the Registration Statement and Prospectus in case of registration of shares for public offering with the Commission.

The Board shall ensure that Notice of Annual and Special Stockholders' meetings shall be sent to all shareholders at least twenty eight (28) days before the meeting. It shall also make the result of the votes taken during the most recent Annual or Special Stockholders' Meeting publicly available the next working day. Additionally, the Minutes of such meeting shall be available on the Corporation's website within five (5) business days from the end of the meeting.

The minority shareholders shall have the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

In accordance with existing law and jurisprudence, minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management should include such information and, if not included, then the minority shareholders can propose to include such matters in the agenda of stockholders' meeting provided always that this right of access is conditioned upon the requesting shareholder's having a legitimate purpose for such access.

#### **RIGHT TO DIVIDENDS**

Shareholders have the right to receive dividends subject to the discretion of the Board. However, the SEC may direct the Corporation to declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the Corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for a special reserve for probable contingencies.

#### **APPRAISAL RIGHT**

In accordance with the Corporation Code, shareholders may exercise appraisal rights under the following circumstances:

1. 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;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
3. In case of merger or consolidation; and
4. In case of Investment of funds in any other corporation or business or for any purpose other than the primary purpose for which the Corporation was organized.

## **II. Alternative Dispute Resolution Mechanism**

Any controversy or claim brought directly by a shareholder of the Corporation against the Corporation or any of its Directors, officers, or agents may be settled by arbitration as provided under the Philippine Alternative Dispute Resolution Act of 2014.

The arbitration shall be conducted in accordance with the Arbitration Rules of the Philippine Dispute Resolution Center, Inc. of the Philippine Chamber of Commerce and Industry (the “Arbitration Rules”) then in effect.

The place of arbitration shall be in Metro Manila and the language of arbitration shall be in English.

There shall be three (3) arbitrators (the “Arbitral Tribunal”) to be appointed in accordance with the Arbitration Rules.

The parties shall be bound by the award rendered by the Arbitral Tribunal and confirmed by the appropriate Regional Trial Court.

Arbitration shall not be available for disputes involving claims in excess of One Million Pesos (PhP1,000,000.00) or involving the determination of the fair valuation of shares in appraisal proceedings.

## **III. Disclosure and Transparency**

All material information about the Corporation which could adversely affect its viability or the interest of the stockholders and other stakeholders as well as other relevant information shall be publicly and timely disclosed to investors, stakeholders and other interested users through media and analysts’ briefings or other means. Such information should include, among others, 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.

The Board shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submission to the SEC for the interest of its stockholders and other stakeholders. All Directors and officers shall be required to disclose or report to the Corporation any dealings in the Corporation’s shares within three business days.

## **IV. Stakeholder Engagement**

There shall be an Investor Relations Division within the Corporation, which shall be tasked with the:

1. creation and implementation of an investor relations program that reaches out to all shareholders and fully informs them of corporate activities;
2. formulation of a clear policy on communicating or relating relevant information to Corporation stockholders and other stakeholders and to the broader investor community accurately, effectively and sufficiently;
3. setting up of an avenue to receive, feedback, complaints and queries from shareholders other than through the annual stockholders’ meeting;
4. preparation of disclosure documents to the Philippine Securities and Exchange Commission and the Philippine Stock Exchange, and



5. dissemination of this Manual and the conduct of an orientation program for the Board and Management.

The Head of the Investor Relations Division shall be present at every stockholders' meeting.

## **V. Sustainability and Social Responsibility**

The Corporation aligns its objectives with the national development goals, and recognizes the importance of interdependence between business and society. Over time, it has made a deliberate decision to integrate sustainability into its strategy, and has anchored its sustainability policy on the UN Sustainable Development Goals.

The Corporation is mindful of its businesses' impact to the economy, society, and environment. With this discipline, the Corporation ensures that: it gives priority to community-based entrepreneurs, engages only with suppliers who also observe sustainability practices, and continues to pursue opportunities to improve operating efficiencies.

The Management shall make proper disclosure of the Corporation's management of the material economic, environmental, social and governance aspects of its businesses and activities using the GRI Standards by the Global Reporting Initiative.

### **Part Four. Penalties for Non-Compliance**

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed after notice and hearing, on the Corporation's Directors, officers and employees in case of violation of any of the provisions:

1. Reprimand for the first violation;
2. Suspension from office for the second violation. The duration of the suspension shall be at the reasonable discretion of the Board, considering the gravity of the violation.
3. Removal from office for the third violation.

### **Part Five. Effectivity and Periodic Review of the Corporate Governance Manual**

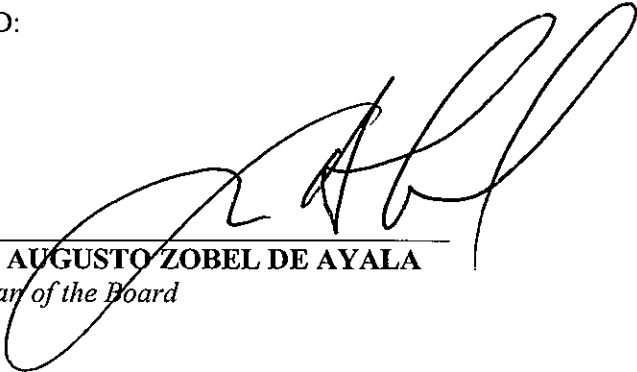
#### **EFFECTIVITY**

This Corporate Governance Manual shall be effective upon submission to the SEC. It supersedes the previous Manual on Corporate Governance that was adopted by the Corporation on January 1, 2003 and was most recently amended on September 28, 2015.

#### **PERIODIC REVIEW**

This Corporate Governance Manual shall be reviewed periodically by the Corporate Governance and Nomination Committee (together with the other Board Committees, as necessary) and the Board will make appropriate changes based on recommendations from the Committee(s).

SIGNED:



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**JAIME AUGUSTO ZOBEL DE AYALA**

*Chairman of the Board*



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**SOLOMON M. HERMOSURA**

*Compliance Officer*

*J*