



March 28, 2017

**SECURITIES AND EXCHANGE COMMISSION**  
SEC Building, EDSA Greenhills  
Mandaluyong City

ATTENTION : **DIR. JUSTINA F. CALLANGAN**  
CORPORATE GOVERNANCE AND FINANCE DEPARTMENT

**PHILIPPINE STOCK EXCHANGE, INC.**  
3<sup>rd</sup> Floor, PSE Plaza, Ayala Triangle  
Ayala Ave., Makati City

ATTENTION : **JOSE VALERIANO B. ZUÑO III**  
OIC – HEAD, DISCLOSURE DEPARTMENT

RE : **AMENDMENTS TO THE MANUAL ON CORPORATE GOVERNANCE**

Gentlemen:

Pursuant to SEC Memorandum Circular No. 19, series of 2016, the Code of Corporate Governance for Publicly-Listed Companies, we hereby submit our updates and amendments to **SM INVESTMENTS CORPORATION'S** Manual on Corporate Governance (Annex A). Subject amendments have been reviewed and approved by the Board of Directors in their meeting scheduled March 1, 2017 subject to additional details for completion. The amendments are summarized in the attached (Annex B) for your easy reference. The final revised Manual has been approved by the Corporate Governance team last 27 March 2017.

Thank you.

Very truly yours,

**Atty. Marianne M. Guerrero**  
Senior Vice President & Head – Legal Department  
And Assistant Corporate Secretary

Cc: **Issuer Compliance & Disclosure Department**  
**Philippine Dealing & Exchange Corp.**

**SM Investments Corporation**  
10/F One E-COM Center  
Harbor Drive  
Mall of Asia Complex  
1300, Pasay City, Philippines



INVESTMENTS  
CORPORATION

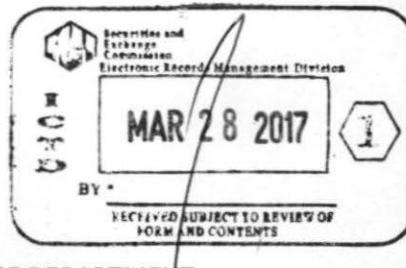
March 28, 2017

ch 28, 20

ch 28, 20

SECURITIES AND EXCHANGE COMMISSION  
SEC Building, EDSA Greenhills  
Mandaluyong City

ATTENTION : DIR. JUSTINA F. CALLANGAN  
CORPORATE GOVERNANCE AND FINANCE DEPARTMENT



PHILIPPINE STOCK EXCHANGE, INC.  
3<sup>rd</sup> Floor, PSE Plaza, Ayala Triangle  
Ayala Ave., Makati City

ATTENTION : JOSE VALERIANO B. ZUÑO III  
OIC – HEAD, DISCLOSURE DEPARTMENT

RE : AMENDMENTS TO THE MANUAL ON CORPORATE GOVERNANCE

Gentlemen:

Pursuant to SEC Memorandum Circular No. 19, series of 2016, the Code of Corporate Governance for Publicly-Listed Companies, we hereby submit our updates and amendments to **SM INVESTMENTS CORPORATION'S** Manual on Corporate Governance (Annex A). Subject amendments have been reviewed and approved by the Board of Directors in their meeting scheduled March 1, 2017 subject to additional details for completion. The amendments are summarized in the attached (Annex B) for your easy reference. The final revised Manual has been approved by the Corporate Governance team last 27 March 2017.

Thank you.

Very truly yours,

**Atty. Marianne M. Guerrero**  
Senior Vice President & Head – Legal Department  
And Assistant Corporate Secretary

Cc: Issuer Compliance & Disclosure Department  
Philippine Dealing & Exchange Corp.

**SM Investments Corporation**  
10/F One E-Corp Center  
Harbor Drive  
Mall of Asia Complex  
1300, Pasay City, Philippines

**MANUAL ON CORPORATE GOVERNANCE**

The Board of Directors (the "Board") and Management, i.e. officers and staff, of SM Investments Corporation (the "Corporation") are committed to the guiding principles and best practices contained in this Manual on Corporate Governance (the "Manual"), in the attainment of their corporate goals.

**DEFINITION OF TERMS**

- a. *Corporate Governance.* The framework of rules, systems and processes in the Corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to the shareholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates.
- b. *Board of Directors.* The governing body elected by the shareholders that exercises the corporate powers of the Corporation, conducts all its business and controls its properties.
- c. *Exchange.* An organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities.
- d. *Management.* The body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the Corporation.
- e. *Independent Director.* A person who, apart from his/her fees and shareholdings, is independent of Management and free from any business or other relationship which could, or could reasonably be perceived to materially interfere with his/her exercise of independent judgment in carrying out his/her responsibilities as a director.
- f. *Lead Independent Director.* An independent director designated by the Board as lead independent director if the Chairman of the Board is not an independent director.
- g. *Executive Director.* A director who is a member of the management team of the Corporation.
- h. *Non-Executive Director.* A director who is not a member of the Corporation's management team and does not perform any work related to the operations of the Corporation.
- i. *Non-Audit Work.* The other services offered by an external auditor to the Corporation that are not directly related and relevant to its statutory audit functions, such as accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor.
- j. *Internal Control.* The system established by the Board of Directors and Management for accomplishment of the Corporation's objectives, the efficient operation of its business, the

reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules.

- k. *Internal Control System.* The framework under which internal controls are developed and implemented to manage and control a particular risk or business activity, or combination of risks or business activities, to which the Corporation is exposed.
- l. *Internal Audit.* An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- m. *Internal Audit Department.* A department of the Corporation that provides independent and objective assurance services in order to add value to and improve the Corporation's operations.

## OBJECTIVE

This Manual seeks to institutionalize the principles and best practices of good corporate governance in the entire organization, in the belief that good corporate governance is a critical component of sound strategic business management.

### 1. BOARD OF DIRECTORS

Compliance with the principles of good corporate governance begins with the Board of Directors. It is the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

#### 1.1. BOARD COMPOSITION

The Board shall be composed of directors with collective working knowledge, experience or expertise that is relevant to the Corporation's industry/sector. The Board shall ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on evolving business environment and strategic direction.

- 1.1.1. The Board shall be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.
- 1.1.2. The Board shall have at least three (3) independent directors, or such number as to constitute at least one-third (1/3) of the members of the Board, whichever is higher.

**1.1.3. The Board shall designate a lead director among the independent directors.****1.2. BOARD DIVERSITY STATEMENT**

"We value, promote, and observe a policy on diversity in the composition of our Corporation's Board. In particular, provided all other qualifications are met, there should be women in our Board of Directors. We will strive to have at least one (1) woman independent director sit in our Board at all times."

**1.3. GENERAL RESPONSIBILITY OF THE BOARD**

Directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Corporation, its shareholders and other stakeholders.

**1.4. SPECIFIC DUTIES AND FUNCTIONS OF THE BOARD**

To ensure a high standard of best practice for the Corporation, its shareholders and other stakeholders, the Board shall:

- 1.4.1.** Install a process of selection to ensure a mix of competent directors and officers;
- 1.4.2.** Determine the Corporation's purpose, vision, mission and strategies to carry out its objectives and review it annually, or sooner should the need arise;
- 1.4.3.** Oversee the development of and approve the Corporation's business objectives and strategy, and monitor Management's implementation of such.
- 1.4.4.** Ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices;
- 1.4.5.** Identify the Corporation's major and other stakeholders and formulate a clear policy on communicating or relation with them through an effective investors relations program;
- 1.4.6.** Adopt a system of internal checks and balances;
- 1.4.7.** Identify and monitor key risk areas and key performance indicators, and ensure that a sound Enterprise Risk Management framework is in place;
- 1.4.8.** Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulation;
- 1.4.9.** Ensure that an effective succession planning program for directors, key officers and management is in place, and setting the retirement age for directors and key officers at eighty (80) years of age;

- 1.4.10.** Ensure that each elected director, shall before assumption of office, be required to attend a seminar on corporate governance conducted by a duly recognized private or governance institution;
- 1.4.11.** Ensure that each director shall annually attend relevant continuing education programs conducted by a regulatory body accredited training provider;
- 1.4.12.** Ensure that directors with material interest in any transaction affecting the Corporation should abstain from taking part in the deliberations for the same;
- 1.4.13.** Formulate and implement group-wide policies to ensure the integrity of related party transactions, particularly those which pass certain thresholds of materiality, between and among the Corporation and its related companies, business associates, major shareholders, officers, directors and their spouses, children, dependent siblings and parents, and of interlocking director relationships; and
- 1.4.14.** Establish and maintain an alternative dispute resolution system to settle conflicts between the Corporation and its shareholders or other third parties, including regulatory authorities.

#### **1.5. NOMINATION AND ELECTION OF BOARD OF DIRECTORS**

- 1.5.1.** The Corporation shall set a reasonable period for the submission of nominations of candidates for election to the Board of Directors. All nominations for directors submitted in writing to the Corporate Secretary within such nomination period shall be valid. A shareholder of record, including a minority shareholder, entitled to notice of and to vote at the regular or special meeting of the shareholders for the election of directors shall be qualified to be nominated as a director.
- 1.5.2.** The Corporation may engage the services of professional search firms or use other external sources of candidates when searching for candidates to the Board of Directors.
- 1.5.3.** The Corporate Governance Committee shall meet, pre-screen and check the qualifications and disqualifications of all persons nominated to be elected to the Board of Directors from the pool of candidates submitted by the nominating shareholders.

#### **1.5.4. QUALIFICATIONS OF DIRECTORS**

- a. Holder of at least one (1) share of stock of the Corporation;
- b. Shall be at least a college graduate or have sufficient experience in managing the business to substitute for such formal education;
- c. Shall be at least twenty one (21) years old;
- d. Shall be proven to possess integrity and probity;

- e. Shall be diligent, hardworking and reputable;
- f. Shall be proven to possess the appropriate level of skill and experience in line with the strategic plans and goals of the Corporation; and
- g. In addition to the qualifications for membership in the Board required in relevant laws, the Board may provide for additional qualifications, which may include practical understanding of the Corporation's business, membership in good standing in relevant industry, business or professional organizations, and previous business experience.

#### **1.5.5. PERMANENT DISQUALIFICATIONS**

- a. Any person convicted 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;
- b. Any person who has been adjudged by final judgment or order of the Commission, court or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;
- c. Any person judicially declared to be insolvent;
- d. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs;
- e. Conviction by final judgment of an offense punishable by imprisonment or a major violation of the Corporation Code, committed within five (5) years prior to the date of his/her election or appointment;
- f. Any Independent Director that has served on the Board for a maximum cumulative term of nine (9) years;
- g. No person shall qualify or be eligible for nomination or election to the Board of Directors if he is engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged:
  - i. If the person is the owner (either of record or as beneficial owner) of 5% or more of any outstanding class of shares of, any corporation (other than one in which the Corporation owns at least 20% of the capital

stock) which is engaged in a business directly competitive to that of the Corporation or any of its subsidiaries or affiliates;

- ii. If the person is an officer, manager or controlling person of, or the owner or any member of his/her immediate family is the owner (either of record or as beneficial owner) of 5% or more of any outstanding class of shares of any corporation (other than one in which the Corporation owns at least 20% of the capital stock) which is an adverse party in any suit, action or proceeding (of whatever nature, whether civil, criminal, administrative or judicial) by or against the Corporation, which has been actually filed or threatened, imminent or probably, to be filed;
- iii. If the person is determined by the Board, in the exercise of its judgment in good faith, to be the nominee, officer, trustee, adviser or legal counsel, of any individual set forth in (i) and (ii) hereof.

#### **1.5.6. TEMPORARY DISQUALIFICATIONS**

- a. Refusal to comply with the disclosure requirements of the Securities Regulation Code and its implementing Rules and Regulations. This disqualification shall be in effect as long as the refusal persists;
- b. Absence or non-participation for whatever reason/s for more than 50% of all meetings, both regular and special, of the Board of Directors during his/her incumbency, or any twelve (12) month period during his/her incumbency, unless the absence is due to illness, death in the immediate family, or serious accident. This disqualification applies for purposes of the succeeding election;
- c. Dismissal or termination for cause as director of any corporation covered by the SEC Code of Corporate Governance for Publicly-Listed Companies. The disqualification shall be in effect until the director has been cleared from any involvement in the cause that gave rise to said dismissal or termination;
- d. If the *Independent Director* becomes an officer or employee of the same corporation, he shall be automatically disqualified from being an independent director;
- e. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final;
- f. If the beneficial equity ownership of an *Independent Director* in the Corporation or its subsidiaries and affiliates exceeds 2% of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with; and

- g. A Non-Executive Director that holds more than five (5) simultaneous board seats in listed companies.

- 1.5.7. Upon consideration of the qualifications and disqualifications enumerated in this Manual, and the subsequent deliberation on the candidates, the Corporate Governance Committee shall prepare a final list of candidates. Said list shall contain all the information about the nominees. Only nominees qualified by the Corporate Governance Committee and whose names appear on the final list of candidates shall be eligible for election. No other nomination shall be entertained after the final list of candidates shall have been prepared.
- 1.5.8. Based on the final list of candidates, directors are elected by shareholders individually. The vote required for the election of directors is majority of the outstanding capital stock. The election of directors shall be by ballot and each shareholder entitled to vote may cast the vote to which the number of shares he owns entitles him/her, for as many persons as there are to be elected as directors, or he/she, may cumulate or give to one (1) candidate as many votes as the number of directors to be elected multiplied by the number of his/her shares shall equal, or he/she may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him/her shall not exceed the number of shares owned by him/her multiplied by the whole number of directors to be elected.
- 1.5.9. The Corporation shall employ the services of an external party to validate the voting results.

## **1.6. BOARD MEETINGS**

The Board shall properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted. Directors should attend and actively participate in all meetings of the Board, Committees and shareholders in person or through tele/video-conferencing conducted in accordance with relevant rules and regulation, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent them from doing so.

- 1.6.1. Board meetings shall be scheduled a year in advance.

- 1.6.2. The Board shall meet at least six (6) times annually.

- 1.6.3. Non-Executive Directors should have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any Executive Directors present; such meetings shall be chaired by the Lead Independent Director.

## **1.7. DUTIES AND RESPONSIBILITIES OF A DIRECTOR**

A director's office is one of trust and confidence. Directors shall act in a manner characterized by transparency, accountability and fairness. A director shall have the following duties and responsibilities:

- 1.7.1.** To conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions;
- 1.7.2.** To devote time and attention necessary to properly discharge duties and responsibilities;
- 1.7.3.** To act judiciously;
- 1.7.4.** To exercise independent judgment;
- 1.7.5.** To have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Securities and Exchange Commission (the "Commission"), and where applicable, the requirements of other regulatory agencies;
- 1.7.6.** To observe confidentiality; and
- 1.7.7.** To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.

#### **1.8. BOARD COMMITTEES**

To aid in complying with the principles of good corporate governance, the Board shall establish board committees that focus on specific board functions. All established committees shall have Committee Charters (the "Charters") stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. Likewise, the Charters shall provide the standards for evaluating the performance of the Committees and shall be disclosed in the Corporation's website.

##### **1.8.A. CORPORATE GOVERNANCE COMMITTEE**

The Corporate Governance Committee is tasked to assist the Board in the performance of its corporate governance responsibilities. The Committee shall be composed of at least three (3) directors, all of whom should be independent directors.

##### **DUTIES AND RESPONSIBILITIES**

The Committee shall ensure compliance with and proper observance of corporate governance principles and practices, and shall:

- 1.8.A.1.** Oversee the implementation of the corporate governance framework and periodically review the said framework to ensure that it remains appropriate in light of material changes to the Corporation's size, complexity and business strategy, as well as its business and regulatory environment;
- 1.8.A.2.** Ensure that directors notify the Board before accepting a directorship in another company;
- 1.8.A.3.** Oversee the annual self-assessment/performance evaluation of the Board, and its Committees as well as Management, the Chairman of the Board and individual directors, and conduct an annual self-evaluation of its own performance;
- 1.8.A.4.** Ensure that every three (3) years, the assessment should be supported by an external facilitator;
- 1.8.A.5.** Ensure that the results of the Board evaluation are shared, discussed and that concrete action plans are developed and implemented to address the identified areas for improvement;
- 1.8.A.6.** Recommend continuing education/training programs for directors and key officers;
- 1.8.A.7.** Adopt corporate governance policies and ensure that these are reviewed and updated regularly, and consistently implemented in form and substance; and
- 1.8.A.8.** In consultation with the appropriate executive or management committee/s, re-define the role, duties and responsibilities of the Chief Executive Officer (CEO) by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.
- 1.8.A.9.** The Committee shall disclose the process it follows in selecting the CEO and in installing succession planning for the position of CEO and all key senior officer positions of the Company.
- 1.8.A.10.** The Committee shall consider the following guidelines in the determination of the number of directorship which a member of the Board may hold:
  - a. The nature of the business of the corporation of which he is a director;
  - b. Age of the director;

- c. Number of directorship/active memberships and officerships in other corporation or organizations; and
- d. Possible conflict of interest.

The optimum number shall be related to the capacity of a director to perform his/her duties diligently.

- 1.8.A.11.** The CEO and other executive directors shall limit the number of corporate board seats they hold to a low number. This is to ensure that the number of board seats held do not exceed their ability to perform their duties in an appropriate fashion. The same low limit shall apply to non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence shall not be compromised.

#### **1.8.B. COMPENSATION COMMITTEE**

The Compensation Committee shall be composed of at least three (3) directors, one (1) of whom shall be an independent director.

##### **DUTIES AND RESPONSIBILITIES**

- 1.8.B.1** Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Corporation's culture, strategy, and control environment.
- 1.8.B.2** Designate the amount of remuneration, which shall be in sufficient level to attract and retain directors and officers who are needed to run the Corporation successfully.
- 1.8.B.3** Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among other, compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.
- 1.8.B.4** Disallow any director to decide his/her own remuneration.
- 1.8.B.5** Provide in the Corporation's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year.

- 1.8.B.6** Review of the existing Human Resources Development or Personnel Handbook, to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives, and compliance of personnel with all statutory requirements that must be periodically met in their respective posts.
- 1.8.B.7** Or in the absence of such Personnel Handbook, cause the development of such, covering the same parameters of governance stated above.

### **1.8.C. AUDIT COMMITTEE**

The Audit Committee is tasked to enhance the Board's oversight capability over the Corporation's financial reporting, internal control system, internal and external audit processes and compliance with applicable laws and regulation. The Committee shall be composed of at least three (3) non-executive directors, majority of whom, including the Chairperson, shall be independent. All of the members of the Committee shall have relevant background, knowledge, skills and/or experience in areas of accounting, auditing and finance. The Chairperson of the Audit Committee shall not be the Chairman of the Board or of any other committee.

#### **DUTIES AND RESPONSIBILITIES**

- 1.8.C.1.** Check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.
- 1.8.C.2.** Pre-approve all audit plans, scope and frequency one (1) month before the conduct of external audit.
- 1.8.C.3.** Perform direct interface functions with the internal and external auditors.
- 1.8.C.4.** Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following in relation to this reform:
- a. A definite timetable within which the accounting system of the Corporation will be 100% International Accounting Standards (IAS) compliant.
  - b. An accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.
- 1.8.C.5.** Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Company though a

step-by-step procedures and policies handbook that will be used by the entire organization.

#### **1.8.D. RISK MANAGEMENT COMMITTEE**

The Risk Management Committee shall be responsible for the oversight of the Corporation's Enterprise Risk Management system to ensure its functionality and effectiveness. The Committee shall be composed of at least three (3) directors, majority of whom, including the Chairperson, shall be independent. At least one (1) member of the committee must have relevant knowledge and experience on risk and risk management. The Chairperson of the Risk Management Committee shall not be the Chairman of the Board or of any other committee.

#### **DUTIES AND RESPONSIBILITIES**

- 1.8.D.1.** Performs oversight financial statement functions, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management.
- 1.8.D.2.** Reviews the adequacy and effectiveness of the Corporation's policies and procedures relating to the identification, analysis, management, monitoring and reporting of financial and non-financial risks.
- 1.8.D.3.** Ensures that Management establishes, appraises and addresses the risks to the Corporation, and sufficiently and swiftly manages said risks, especially those categorized as having high impact with high probability of occurring.
- 1.8.D.4.** Oversees the performance of the Chief Risk Officer, who shall champion the Enterprise Risk Management system and possesses the authority, stature, resources and support to fulfill his/her responsibilities.
- 1.8.D.5.** Advises the Board, in consultation with Management, on the overall risk management program of the Corporation as it relates to its risk appetite and strategic direction.

#### **1.8.E. RELATED PARTY TRANSACTIONS COMMITTEE**

The Board shall establish a Related Party Transaction Committee that shall be tasked with reviewing all material related party transactions of the Corporation. The Committee shall be composed of at least three (3) non-executive directors, majority of whom, including the Chairperson, shall be independent.

#### **DUTIES AND RESPONSIBILITIES**

- 1.8.E.1.** Evaluate and monitor existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified.

**1.8.E.2.** Review and evaluate all material related party transactions in accordance with the following:

- a. The related party's relationship to the Corporation and interest in the transaction;
- b. The material facts of the proposed related party transaction, including the proposed aggregate value of such transaction;
- c. The benefit/s to the Corporation of the proposed related party transaction;
- d. The availability of other sources of comparable products or services; and
- e. An assessment of whether the proposed related party transaction is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances.

**1.8.E.3.** Ensure that appropriate disclosures are made and/or information is provided to regulating and supervising authorities;

**1.8.E.4.** Regularly report to the Board, the Committee's activities, findings, decisions, deliberations and recommendations; and

**1.8.E.5.** Oversee the implementation of the system of identifying, monitoring, measuring, controlling and reporting related party transactions, including a periodic review of related party transaction related policies and procedures.

## **1.9. CORPORATE SECRETARY**

The Corporate Secretary shall assist the Board in its duties. The Corporate Secretary shall be a Filipino citizen, and considering his/her varied functions and duties must possess administrative and interpersonal skills, and if not the general counsel, must have some legal skills. He/she must also have some financial and accounting skills and a working knowledge of the operations of the Corporation.

### **DUTIES AND RESPONSIBILITIES**

**1.9.1.** Assist the Board and Board Committees in the conduct of their meetings, including preparing an annual schedule of Board and Board Committee meetings and the annual board calendar, and assisting the chairs and the Board and Board Committees to set agendas for those meetings.

- 1.9.2.** Safeguard and preserve the integrity of the minutes of the meetings of the Board and Board Committees, as well as other official records of the Corporation.
- 1.9.3.** Gather and analyze all documents, records and other information essential to the conduct of his/her duties and responsibilities to the Corporation.
- 1.9.4.** Ensure that regular meetings are scheduled in the prior year and that the agendas, notices and materials are provided to the Board at least a week in advance of the actual meetings.
- 1.9.5.** Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.
- 1.9.6.** Work fairly and objectively with the Board, Management, shareholders and other stakeholders.
- 1.9.7.** Attend all Board meetings and maintain a record of the same.
- 1.9.8.** Oversee the drafting and/or amendment of the Corporation's By-Laws and ensure that they conform to regulatory requirements.

#### **1.10. COMPLIANCE OFFICER**

To ensure adherence to corporate principles and best practices, the Board shall designate a Compliance Officer who shall hold the rank of Vice President or its equivalent.

##### **DUTIES AND RESPONSIBILITIES**

- 1.10.1.** Ensure proper onboarding of new directors.
- 1.10.2.** Monitor compliance with the statutory rules and regulations affecting the company as a well as the provisions and requirements of this Manual.
- 1.10.3.** Ensure the integrity and accuracy of all documentary submissions to regulators.
- 1.10.4.** Appear before the Commission upon summons on relevant matters that need to be clarified.
- 1.10.5.** Determine violation/s of the Manual and recommend penalty for violation thereof for further review and approval of the Board.
- 1.10.6.** Identify, monitor and control compliance risks.

#### **1.11. EXTERNAL AUDITOR**

The Corporation shall establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independent and enhance audit quality.

- 1.11.1.** An external auditor shall be selected and appointed by the shareholders upon recommendation of the Audit Committee.
- 1.11.2.** The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported to regulators and 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.
- 1.11.3.** The external auditor of the Corporation shall not at the same time provide the services of an internal auditor to the same corporation. The Corporation shall ensure that the other non-audit work shall not conflict with the functions of the external auditor.
- 1.11.4.** The Corporation's external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.
- 1.11.5.** If an external auditor believed that the statements made in the Corporation's annual report, information statement or proxy statement filed during his/her engagement is incorrect or incomplete, he/she shall present his/her views in said reports.

## **1.12. INTERNAL AUDITOR**

The Corporation shall have an independent internal audit function which will provide assurance that appropriate organizational and process controls are in place and are effective.

- 1.12.1.** The Internal Auditor or Chief Audit Executive shall be appointed by the Board and will report to the Audit Committee.
- 1.12.2.** The minimal internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Corporation's organizational and procedural controls.
- 1.12.3.** There shall be an effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all stockholders and other stakeholders.
- 1.12.4.** The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of 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 the extent of regulatory compliance.

## 2. SHAREHOLDERS' BENEFIT

The Corporation recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore, the following provisions are issued for the guidance of all internal and external parties concerned, as the governance covenant between the Corporation and all its investors.

### 2.1. RIGHTS OF INVESTORS/MINORITY INTERESTS

The Board shall be committed to respect and uphold the following rights of shareholders:

#### 2.1.1. Voting Right

- a. Shareholders shall have the right to nominate, elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
- b. Cumulative voting may be used in the election of directors.
- c. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

#### 2.1.2. Pre-emptive Right

Under the Amended Articles of Incorporation of the Company, no stockholder of the Corporation, because of his/its ownership of stock, has a pre-emptive or other right to purchase, subscribe for or take any part of any stock or of any securities convertible into or carrying options or warrants to purchase stock of the corporation. Any part of such stock or other securities may, at any time, be issued, optioned for sale, and sold or disposed of by the Corporation pursuant to a resolution of its Board of Directors, to such person and upon such terms as such Board may deem proper, without first offering such stock or securities or any part thereof to existing stockholders. This restriction is printed on the stock certificates of the Corporation.

#### 2.1.3. Power of Inspection

All 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 furnished with annual reports, including financial statements, without cost or restrictions.

#### 2.1.4. Right to Information

- a. Shareholders shall be provided, upon request, with periodic reports which disclose relevant 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.

- b. The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided items are for legitimate business purposes, and in accordance with law, jurisprudence and best practice.
- c. The minority shareholders shall have access to any and all information relating to matters for which the management is accountable, and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes", and in accordance with law, jurisprudence and best practice.

#### **2.1.5. Right to Dividend**

- a. Shareholders shall have the right to receive dividends subject to the discretion of the Board.
- b. The Corporation shall be compelled to declare dividends when its retained earnings shall be 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 special reserve for probably contingencies.
- c. The policy of the Corporation is to provide a sustainable dividend stream to its shareholders. The Board determines the dividend payout taking into consideration the Corporation's operating results, cash flows, capital investment needs and debt servicing requirements. Since its listing in 2005 the Corporation has been able to declare annual cash dividends equivalent to 30% of prior year earnings and will endeavor to continue doing so while ensuring financial flexibility. Dividends shall be paid within 30 days from the date of declaration.

#### **2.1.6. Appraisal Right**

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

- a. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder 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.
- b. 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; and
- c. In case of merger or consolidation.

**2.2.** It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholder rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting right and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions, subject to legal constraints.

**2.3.** Shareholders should be encouraged to personally attend stockholders' meetings. The Corporation shall send the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least twenty-eight (28) days before the meeting. Shareholders unable to attend the meeting shall be apprised ahead of time of their right to appoint a proxy.

**2.4.** During the stockholder's meetings, the Corporation shall engage the services of an independent body that will be charged with the responsibility of ensuring that voting procedures adhere to standards of integrity, transparency, fairness, and professionalism.

**2.5.** Results of the votes taken during Annual or Special Shareholders' Meetings shall be publicly available the next working day after the meeting. In addition, the Minutes of the Annual or Special Shareholders' Meeting shall be available on the Corporation's website within five (5) business days from the end of the meeting.

### **3. COMMUNICATION PROCESS**

**3.1.** This Manual shall be posted on the Corporation's website for any shareholder to read.

**3.2.** All directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties.

**3.3.** An adequate number of printed copies of this Manual must be reproduced under the supervision of the Corporate Governance Department, with a minimum of at least one (1) hard copy of the Manual per department.

**4. REPORTORIAL OR DISCLOSURE SYSTEM OF THE CORPORATION'S GOVERNANCE POLICIES**

**4.1.** The reports or disclosures required under this Manual shall be prepared and submitted to the Commission by the responsible Committee or officer through the Corporation's Compliance Officer.

**4.2.** All material information, about the corporation which could adversely affect its viability or the interest of its stockholders and other stakeholders should be disclosed publicly and in a timely manner. 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.

**4.3.** All disclosed information shall be released via the approved stock exchange procedure for company announcement, as well as through the annual report.

**4.4.** The Board shall commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Commission for the interests of its stockholders and other stakeholders.

**5. MONITORING AND ASSESSMENT**

**5.1.** Each Board Committee shall report regularly to the Board of Directors.

**5.2.** This Manual shall be subject to annual review unless the frequency is amended by the Board.

**5.3.** All business processes and practices being performed within any department or business unit of SM Investments Corporation that are not consistent with any portion of this Manual shall be revoked unless upgraded to be compliant with this Manual.

**6. PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL**

**6.1.** To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Company's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provisions of this Manual:

a. In case of first violation, the subject person shall be reprimanded.

- b. Suspension from the office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation. This shall not be applicable to directors.
- c. For third violation, the maximum penalty of removal from office shall be imposed. With regard to directors, the provision of Section 28 of the Corporation Code shall be observed.

**6.2.** The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

7. Effectivity of the Manual.

This Manual as amended has been approved by the Board of Directors on March 1, 2017.

----

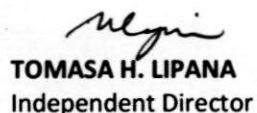
Approved:



**TERESITA T. SY**  
Vice-Chairperson



**HENRY T. SY, JR.**  
Vice-Chairman

  
**HARLEY T. SY**  
Director and President  
  
  
**AH DOO LIM**  
Independent Director  
**JOSE T. ALITO**  
Director  
**JOSEPH R. HIGDON**  
Independent Director  
**TOMASA H. LIPANA**  
Independent Director

### Summary of Amendments to the Manual on Corporate Governance

1. Define *Lead Independent Director* in the **Definition of Terms** (pg. 1).
2. Amend provisions under **(1.1) Board Composition**, revise **(1.1.2.)** to “have at least three (3) independent directors...”, and **(1.1.3)** “designation of a lead director among the independent directors”.
3. Amend provisions under **(1.4.) Specific Duties and Functions of the Board**, revise **(1.4.7.)** to include “ensure a sound Enterprise Risk Management framework is in place”, revise **(1.4.9.)** to state “Ensure that an effective succession planning program for directors, key officers and management is in place, and setting the retirement age for directors and key officers at eighty (80) years of age”, revise **(1.4.11)** to state “Ensure that each elected director shall annually attend relevant continuing education programs conducted by a regulatory body accredited training provider”, and revise **(1.14.13.)** to reflect “group-wide” policies on RPTs.
4. Amend **(1.5) Nomination and Election of Board of Directors**, to elaborate the process of nomination and election of the Board.
5. Amend **(1.5.5) Permanent Disqualifications**, revise (f.) to state “Any independent director that has served on the Board for a maximum cumulative term of nine (9) years”.
6. Amend **(1.5.6) Temporary Disqualifications**, revise (g.) to state “A non-executive director that holds more than five (5) simultaneous board seats in listed companies.”
7. Add section **(1.6) Board Meetings** to reflect that *Board meetings be scheduled a year in advance* **(1.6.1.)**, the *Board meets at least six (6) times annually* **(1.6.2.)**, and that *non-executive directors have periodic meetings w/o the presence of any executive directors; chaired by the lead independent director* **(1.6.3.)**.
8. Amend **(1.8) Board Committees** to reflect that all board committees have committee charters.
9. Amend **(1.8.A.) Corporate Governance Committee**, combining the work of the former Nomination Committee with corporate governance related duties and responsibilities.
10. Amend the **(1.8.C.) Audit Committee**, to state that “*the Chairperson of the Audit Committee shall not be the Chairman of the Board or of any other committee*”.
11. Amend the **(1.8.D.) Risk Management Committee**, to state that “*the Chairperson of the Risk Management Committee shall not be the Chairman of the Board or of any other committee*”, and revise **(1.8.D.4)** to reflect the Committee’s oversight on the performance of the CRO.
12. Add section **(1.8.E) Related Party Transactions Committee** to establish said committee.

13. Amend section **(1.9.) Corporate Secretary**, to better elaborate the Corporate Secretary's duties and responsibilities, particularly provisions **1.9.1.** and **1.9.2.**
14. Amend **(1.12) Internal Auditor**, revise **(1.12.1)** to state "*internal auditor or Chief Audit Executive shall be appointed by the Board and will report to the Audit Committee.*"
15. Amend **(2.3.)** under **(2) Shareholders' Benefit** to state "*Shareholders should be encouraged to attend stockholders' meetings. The Corporation shall send the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least twenty-eight (28) days before the meeting. Shareholders unable to attend the meeting shall be apprised ahead of time of their right to appoint a proxy*", and revise **(2.5)** to state "*Results of the votes taken during Annual or Special Shareholders' Meetings shall be publicly available the next working day after the meeting. In addition, the Minutes of the Annual or Special Shareholders' Meeting shall be available on the Corporation's website within five (5) business days from the end of the meeting.*"