



## CHARTER OF THE BOARD OF DIRECTORS

### Section 1. INTRODUCTION

The Board of Directors (the “Board”) of Ayala Corporation (the “Corporation” or “Ayala”) is the supreme authority in matters of governance and in managing the business of the Corporation. Within their authority under the Corporation Code and other applicable laws and the By-laws of the Corporation (the “By-laws”), the Directors, acting as a Board, have the fullest powers to regulate the concerns of the Corporation according to their best judgment.<sup>1</sup>

The Board is responsible to promote and adhere to the principles and best practices of corporate governance, to foster the long-term success of the Corporation and to secure its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility<sup>2</sup>.

The Board shall exercise its powers and duties in the best interest of the Corporation, its shareholders and other stakeholders.

### Section 2. COMPOSITION OF THE BOARD

- 1. Number of Directors.** - The Board shall have seven (7) members.<sup>3</sup>
- 2. Board Competencies and Diversity.** - The Board shall be composed of members who possess the necessary knowledge, skills and experience required to properly perform the duties of the Board.

The Board shall encourage the selection of a mix of competent Directors, each of whom can add value and independent judgment in the formulation of sound corporate strategies and policies. Careful attention must be given to ensure that there is independence and diversity, and appropriate representation of women in the Board to the greatest extent possible.<sup>4</sup>

- 3. Review of Board Profile.** - The Board shall regularly review its composition, taking into account the evolving requirements of the Corporation, and best practices in corporate governance.

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<sup>1</sup> By-laws, Article IV, Sec. 1; Manual of Corporate Governance, Article II, 1; Corporation Code, Sec. 23.

<sup>2</sup> By-laws, Article IV, Sec. 1.

<sup>3</sup> By-laws, Article IV, Sec. 1; Manual of Corporate Governance, Article II, 1.1.

<sup>4</sup> ASEAN Corporate Governance Scorecard (ACGS), E.4.6.

- 4. Independent Directors** – The Board shall have such number of Independent Directors as may be required by law and the rules of the Securities and Exchange Commission (SEC) and of the Philippine Stock Exchange (PSE) (hereafter, the “Philippine Requirements”)<sup>5</sup> and the standards or criteria set by the Association of Southeast Asian Nations (ASEAN) for the strengthening of the ASEAN capital market development and integration for the establishment of an ASEAN Economic Community (hereafter, the “ASEAN Standards”).<sup>6</sup>

To be considered independent, a Director shall, apart from his fees and shareholdings, hold no interests or relationships with the Corporation that may hinder his independence from the Corporation, Management, or shareholders which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a Director of the Corporation. For this purpose, 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.<sup>7</sup>

Attached as Annex A of this Charter are the requirements or criteria for a Director to qualify as an Independent Director under the Philippine Requirements or the ASEAN Standards.

### **Section 3. BOARD INDEPENDENCE AND CONFLICT OF INTEREST**

It is the responsibility of each Director to promote the best interest of the Corporation. Therefore, in making decisions, they should only pursue the interest of the Corporation, and must not consider their personal interest.

- 1. Disclosure of Interest.** - Each Director shall disclose any conflict of interest, annually through the Ayala Disclosure Form.<sup>8</sup> A Director with any material conflict of interest that has been determined to be permanent in nature shall be disqualified from the Board.

Notwithstanding the precautions set by the annual disclosure of conflict of interest, a Director shall abstain from participating in the discussion of, and voting on, any matter where he is in conflict of interest.<sup>9</sup>

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<sup>5</sup> By-laws, Article IV, Sec. 1.

<sup>6</sup> ACGS.

<sup>7</sup> SRC Rule 38, par. 2; Revised Code of Corporate Governance, Article 1 (e); SEC Memorandum Circular No.16, series of 2002; ACGS, E.2.5; Manual of Corporate Governance, Article II, 1.5.

<sup>8</sup> ACGS, B.4.1.

<sup>9</sup> ACGS, B.4.3.

- 2. Dealing in Corporation's Shares.** - In line with the insider trading policy of the Corporation, each Director is required to report to the Board within three (3) business days from dealing in the shares of stock of the Corporation (the "Shares").<sup>10</sup>
- 3. Number of Independent Non-executive Directors.** - In line with best practice in corporate governance and in accordance with the ASEAN Standards, it is the Corporation's goal to have Independent Non-executive Directors comprise more than 50% of the Board.<sup>11</sup>
- 4. Policy on Multiple Board Seats.** - The Corporation shall ensure that adequate time and attention is given to the fulfilment of the Directors of their duties. The Independent Directors and Non-executive Directors shall hold no more than five board seats in publicly-listed companies and Executive Directors shall hold no more than two board seats in listed companies outside the Corporation's group.<sup>12</sup> In the implementation of this policy, the Board may consider several directorships in related companies or companies in the same industry as one.
- 5. Confidentiality Rule** - Directors shall keep confidential all the information contained in the confidential reports or discussions. They shall also ensure that all persons who have access to the same information likewise comply with this rule.
- 6. Influence of Former Directors.** - Former Directors shall not be allowed to exercise influence over the operations of the Corporation. The confidentiality rule applicable to incumbent Directors shall continue to apply to former Directors.
- 7. Employment of Former Directors.** - Notwithstanding the immediately preceding paragraph, an exception may be made if it is in the best interest of the Corporation, as determined by the incumbent Board, that a former Director take a certain position within the Corporation.

#### **Section 4. ELECTION OF DIRECTORS**

The Directors shall be elected by the Corporation's stockholders entitled to vote at the annual meeting in accordance with the By-laws and the Rules of Procedure for Annual Stockholders' Meeting.

- 1. Nomination of Directors.** – Pursuant to the Corporation Code, any shareholder, including minority shareholders, shall have the right to nominate candidates for the Board.<sup>13</sup> The list of names of the nominees to the Board of Directors, together with the written consent of the nominees shall be filed and submitted to the Nomination

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<sup>10</sup> ACGS, B.3.1 and B.3.2.

<sup>11</sup> ACGS, E.2.4 and E.4.1 (B).

<sup>12</sup> ACGS, E.2.8 and E.2.9.

<sup>13</sup> ACGS, A.3.2.

Committee through the office of the Corporate Secretary at least thirty (30) business days prior to the date set for the annual meeting wherein they will be elected.<sup>14</sup>

- 2. Required Vote.** - For the election of Directors, it is necessary for one-half plus one of the outstanding shares of stock to be present or represented in the annual stockholders' meeting.<sup>15</sup>
- 3. Ownership of Corporation Shares.** - No person shall be elected nor be competent to hold the office of Director unless at least one (1) share of stock of the Corporation shall stand in his name in the books of the Corporation at the time of his election.<sup>16</sup>
- 4. Ground for Disqualification for Nomination.** - 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 in accordance with the By-laws.<sup>17</sup>
- 5. Term of Office.** - Directors shall hold office for a term of one (1) year, more or less, immediately upon their election and until their successors shall have been elected and qualified in accordance with the By-Laws.<sup>18</sup>
- 6. Term Limits for Independent Directors.** - Independent Directors can serve as such for five (5) consecutive years, provided that service for a period of at least six (6) months shall be equivalent to one (1) year, regardless of the manner by which the Independent Director position was relinquished or terminated.<sup>19</sup>
- 7. Re-election of Independent Directors.** - After completion of the five-year service period, an Independent Director shall be ineligible for election as such in the Corporation unless the Independent Director has undergone a "cooling off" period of two (2) years, provided, that during such period, the Independent Director concerned has not engaged in any activity that under existing rules of the SEC disqualifies a person from being elected as Independent Director of the Corporation.

An Independent Director re-elected as such in the Corporation after the "cooling off" period can serve for another four (4) consecutive years under the conditions mentioned in paragraph 4.6. above.<sup>20</sup>

- 8. Disassociation of Independent Directors.** - After serving as Independent Director for nine (9) years, the Independent Director shall be perpetually barred from being

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<sup>14</sup> By-laws, Article IV, Sec. 3.

<sup>15</sup> By-laws, Article III, Sec. 5; Corporation Code, Sec. 24.

<sup>16</sup> By-laws, Article IV, Sec. 2; Corporation Code, Sec. 23.

<sup>17</sup> By-laws, Article IV, Sec. 3.

<sup>18</sup> By-laws, Article IV, Sec. 1.

<sup>19</sup> SEC Memorandum Circular No. 9, series of 2011.

<sup>20</sup> ACGS, E.2.6 and E.2.1 (P).

elected as such in the Corporation, without prejudice to being elected as 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 Securities and Exchange Commission.<sup>21</sup>

- 9. Filling of Vacancies.** - In case any vacancy or vacancies should occur on the Board of Directors other than removal or expiration of term, due to death, resignation or other causes, the remaining Directors, if still consisting a quorum, may fill said vacancies by election from among the stockholders and the stockholders so elected shall act as members of said Board until the new Board of Directors is elected.<sup>22</sup>

## **Section 5. BOARD MEETINGS**

- 1. Frequency of Meetings.** - The Board shall meet at least six (6) times each calendar year.<sup>23</sup> It shall hold meetings before the start of the financial year,<sup>24</sup> immediately after the annual meeting of stockholders, at least once every quarter,<sup>25</sup> and on such other days that it may designate.

It may be convened in special meeting by the Chairman or at least the request of three (3) Directors.<sup>26</sup>

- 2. Quorum.** – 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.<sup>27</sup>
- 3. Attendance.** - Directors are encouraged to attend all Board meetings, either in person or via teleconferencing facility.<sup>28</sup> A Director who fails, without any justifiable cause, to attend at least 75% of the total number of Board meetings during any term shall not be eligible for re-election.<sup>29</sup>
- 4. Notice of Meeting.** - The Board meetings shall be announced at least two weeks in advance. Notice of meetings may be given by any customary means of communication (e.g. by e-mail, in writing, by telephone, by telefax, etc.). The notice shall specify the time and place of the meeting and include a detailed agenda. As a rule, Board materials are to be distributed to all Directors at least five (5) business days prior to each Board meeting.

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<sup>21</sup> SEC Memorandum Circular No. 9, series of 2011.

<sup>22</sup> By-laws, Article IV, Sec. 5; Corporation Code, Sec. 29.

<sup>23</sup> ACGS, E.3.2.

<sup>24</sup> ACGS, E.3.1.

<sup>25</sup> By-laws, Article IV, Sec. 6.

<sup>26</sup> By-laws, Article IV, Sec. 6; Corporation Code, Sec. 53.

<sup>27</sup> ACGS, E.3.4.

<sup>28</sup> Manual of Corporate Governance, Article II, 1.7.1.

<sup>29</sup> ACGS, E.3.3.

- 5. Chairman of the Meeting.** - Board meetings shall be chaired by the Chairman of the Board or, in his or her absence, by the Vice Chairman.
- 6. Matters for Discussion in Meetings.** - In any Board meeting, decisions may be made on matters not included in the distributed meeting agenda only if there are no objections posed by any member of the Board.
- 7. Minutes of the Meeting.** - Minutes of the Board meetings shall be taken and recorded by the Office of the Corporate Secretary. Minutes shall be signed by the chairman of the meeting and by the individual who has been appointed to take notes during the meeting.
- 8. Executive Sessions.** - At least once a year, the Non-executive Directors must meet without any executives present.<sup>30</sup>

## **Section 6. RESPONSIBILITIES OF THE BOARD**

- 1. Duties, Powers and Attributes of the Board.** - The Board of Directors shall have the following duties, powers and attributes, in addition to those assigned to it by the Corporation Code or other applicable law and the By-Laws which are not set forth herein:
  - (a)** Adopt, continuously review, monitor the implementation of the corporate strategy;<sup>31</sup>
  - (b)** Determine the period, manner and conditions under which the Corporation shall engage in the kinds of business comprised in Article II of the Articles of Incorporation;<sup>32</sup>
  - (c)** Review vision and mission statement of the Corporation every year;<sup>33</sup>
  - (d)** Determine the manner in which the corporate capital shall be invested, subject to the provisions of Article II of the Corporation's By-Laws;<sup>34</sup>
  - (e)** Make rules for the internal regulation of the Corporation;<sup>35</sup>
  - (f)** Create committees and other bodies it may deem advantageous or necessary in running the affairs of the Corporation, as well as appoint advisory Directors who can participate in Board deliberations but whose functions shall strictly be advisory and are non-voting; appoint Senior Managing Directors, Managing Directors, Executive Directors and Associate Directors, who need not necessarily be members of the Board of Directors, Attorneys-in-Fact, Managers, Assistant Managers, Assistant Secretaries and Legal Counsel for the Corporation,

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<sup>30</sup> ACGS, E.3.5.

<sup>31</sup> ACGS, E.1.6.

<sup>32</sup> By-laws, Article IV, Sec. 8a.

<sup>33</sup> ACGS, E.1.4 and E.1.5.

<sup>34</sup> By-laws, Article IV, Sec. 8b.

<sup>35</sup> By-laws, Article IV, Sec. 8c.

Members of the Committee of Inspectors of Proxies and Ballots, and fix their duties and powers;<sup>36</sup>

- (g)** Determine the creation of branches, agencies, office departments of any class, under the conditions it may deem convenient;<sup>37</sup>
- (h)** Decide as to the safekeeping of the funds of the Corporation, open current accounts, fixed deposit accounts and savings accounts with any bank authorized to operate in the Philippines and/or abroad;<sup>38</sup>
- (i)** Approve the budgets and general expense accounts of the Corporation each year and each quarter, if necessary;<sup>39</sup>
- (j)** Fix annually the percentage to be written off on all capital expenditures of the Corporation such as buildings, furniture and fixtures, etc. and determine the distribution of profits and dividends;<sup>40</sup>
- (k)** Submit annually to the annual meeting of stockholders the Balance Sheet, profit and Income Statement and Annual Report on the condition of the Corporation;<sup>41</sup>
- (l)** Call special meetings;<sup>42</sup>
- (m)** Authorize any other person or persons it may deem fit to purchase, sell, or mortgage the real or personal properties of the Corporation;<sup>43</sup>
- (n)** Authorize any other person or persons it may deem fit to cancel mortgages or pledges executed as securities for loans and bonds when the mortgages have been repaid to the Corporation and when the bonds have been cancelled;<sup>44</sup>
- (o)** Determine the time and manner of issuance of unissued stocks of the Corporation;<sup>45</sup>
- (p)** Fix the budget of administration expenses;<sup>46</sup>
- (q)** Determine the manner and conditions under which employees of the Corporation shall be granted pensions, retirement gratuity or life insurance protection;<sup>47</sup>
- (r)** Institute, maintain, defend, compromise or drop any litigation in which the Corporation or its officers may be interested in as plaintiff or defendant in connection with the business of the Corporation and grant extension of time for the payment or settlement of any indebtedness in favor of the Corporation;<sup>48</sup>

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<sup>36</sup> By-laws, Article IV, Sec. 8d.

<sup>37</sup> By-laws, Article IV, Sec. 8e.

<sup>38</sup> By-laws, Article IV, Sec. 8f.

<sup>39</sup> By-laws, Article IV, Sec. 8g.

<sup>40</sup> By-laws, Article IV, Sec. 8h.

<sup>41</sup> By-laws, Article IV, Sec. 8i.

<sup>42</sup> By-laws, Article IV, Sec. 8j.

<sup>43</sup> By-laws, Article IV, Sec. 8k.

<sup>44</sup> By-laws, Article IV, Sec. 8l.

<sup>45</sup> By-laws, Article IV, Sec. 8m.

<sup>46</sup> By-laws, Article IV, Sec. 8n.

<sup>47</sup> By-laws, Article IV, Sec. 8o.

<sup>48</sup> By-laws, Article IV, Sec. 8p.

- (s) Settle any doubts that may arise relative to the interpretation of the Corporation's By-Laws and supply any omissions, reporting thereon to the stockholders' general meeting for such action as it may see fit to take;<sup>49</sup>
- (t) Conduct an annual performance assessment of the Board, the individual Directors, the board committees, the President and CEO, and other key management officials.<sup>50</sup>  
Attached as Annex B of this Charter are the guidelines in conducting the above-mentioned annual performance assessments.
- (u) Oversee the process of disclosure and communications of relevant corporate information in accordance with applicable laws, rules and company policies.<sup>51</sup>

**2. Adherence to the Code of Conduct and Ethics.** - The Board shall ensure that all Directors, executives and employees adhere to the Corporation's Code of Conduct and Ethics. The Board shall adopt measures for the strict implementation and monitoring of compliance with the Code.<sup>52</sup>

**3. Reporting Responsibility of the Management.** - Management shall inform the Board regularly, promptly and comprehensively about any issues concerning the Corporation's strategy, risk management and compliance. Management shall regularly update the Board of the implementation of the Corporation's strategy and explain variances from the approved plans and targets.<sup>53</sup>

**4. Approval of the Financial Statements.** - Based on the report by the Audit Committee, the Board shall, with the help of independent auditors, approve the financial statements of the Corporation.<sup>54</sup>

**5. Approval of Annual Plans and Budgets.** - The Board shall be responsible in approving the annual plans and budget of the Corporation, as well as the corresponding investments and personnel movements.<sup>55</sup>

## Section 7. THE CHAIRMAN OF THE BOARD

**1. Powers of the Chairman.** - The Chairman of the Board is the legal representative of the Corporation and has powers:

- (a) To preside at all of stockholders' meetings and meetings of the Board;
- (b) To cast the deciding vote in case of a tie in the stockholders' meetings or in the Board meetings;

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<sup>49</sup> By-laws, Article IV, Sec. 8q.

<sup>50</sup> ACGS, E.5.4 to E.5.11.

<sup>51</sup> ACGS, E.1.3.

<sup>52</sup> ACGS, E.2.3.

<sup>53</sup> By-laws, Article V, Sec. 2; Manual of Corporate Governance, Article III, 1 b).

<sup>54</sup> ACGS, E.1.2.

<sup>55</sup> ACGS, E.1.2.



(c) To exercise such other powers which are given him in the By-laws.<sup>56</sup>

2. **Chairman of Board Meetings.** - The Chairman of the Board shall chair all Board meetings, or in case of his absence, the Vice Chairman shall automatically take his place as Acting Chairman of the Board.<sup>57</sup>

The Chairman of the Board shall ensure that all Board members are allowed to freely express their opinions about any matter being discussed.

## **Section 8. CORPORATE SECRETARY**

It shall be the duty of the Corporate Secretary, who must be a citizen and a resident of the Philippines, to prepare and keep the minutes of all meetings of the Board and stockholders and attend to the correspondence and files of the Corporation, to sign, jointly with the President, all stock certificates, keep and affix the corporate seal, record all transfers of stock and cancellations and keep all stock certificates transferred, likewise, keep a list in alphabetical order of all stockholders of the Corporation and of their residences and the shares owned by each, and to perform all other duties which may be assigned to him by the Board.<sup>58</sup>

## **Section 9. BOARD COMMITTEES**

1. **Creation of Board Committees.** - The Board may create such committees (each a "Board Committee") as it may deem necessary to support it in the performance of its functions and in accordance with the By-Laws and to aid in good governance.<sup>59</sup>
2. **Delegation of Rights and Responsibilities to the Board Committees.** - The Board may delegate part of its rights and responsibilities to any of its committees. The committees shall be composed of Board members and key officers of the Corporation specifically chosen for their particular background and areas of expertise that will allow them to adequately perform the functions assigned to their committee. The rights and responsibilities of each Board committee may be defined in greater detail in specific committee charters duly approved by the Board.
3. **Board Committee Charters.** - The Board shall adopt for each Board Committee a charter providing, among others, the composition of the Board Committee, the qualifications of the members, the powers, duties and responsibilities of the Board Committee and the rules governing the exercise of those powers or performance of the duties and responsibilities.

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<sup>56</sup> By-laws, Article IV, Sec. 11.

<sup>57</sup> By-laws, Article IV, Sec. 11.

<sup>58</sup> By-laws, Article IV, Sec. 17

<sup>59</sup> By-laws, Article IV, Sec. 8d; Manual of Corporate Governance, Article II, 2.

4. **Board Committees.** - The Board shall constitute an Executive Committee, an Audit Committee, a Risk Committee<sup>60</sup>, a Nomination Committee, a Personnel and Compensation Committee, a Finance Committee, and a Committee of Inspectors of Proxies and Ballots.

## **Section 10. COMPENSATION OF THE BOARD**

Non-executive Directors shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for their services as Directors. The Board shall have the sole authority, in accordance with a resolution of the stockholders or the By-laws, to determine the amount, form and structure of the fees and other compensation of the Directors. In no case shall the total yearly compensation of Directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year.<sup>61</sup>

## **Section 11. ORIENTATION AND CONTINUING EDUCATION PROGRAMS FOR DIRECTORS**

Prior to assuming office, all new Directors shall undergo orientation program on the Corporation's business and corporate structure, its vision, mission and corporate strategy, the By-laws and Manual of Corporate Governance, and other relevant matters essential for the effective performance of their duties and responsibilities.<sup>62</sup>

Directors shall likewise be required to undergo training and continuing education programs to further their knowledge and assist in their development as Directors.<sup>63</sup>

## **Section 12. MISCELLANEOUS**

1. **Access to Information.** - The Board shall have reasonably free and full access to all relevant information, data, records, properties and personnel of the Corporation.
2. **Technical Assistance.** - The Board may invite such members of Management and other persons to its meetings and may secure independent expert advice as it may deem desirable or appropriate.
3. **Annual Review.** - This Charter shall be reviewed by the Board annually.
4. **Effectivity.** - This Charter shall take effect when approved by the Board and shall apply prospectively.

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<sup>60</sup> ACGS, E.5.1 (B).

<sup>61</sup> By-laws, Article IV, Sec. 21; Corporation Code, Sec. 30.

<sup>62</sup> ACGS, E.5.1.

<sup>63</sup> ACGS, E.5.2.

## Annex A

### Requirements/Criteria for Independent Directors (IDs)

#### I. IDs for Compliance with Philippine Requirements

An Independent Director under Philippine law and the rules of the SEC and the PSE is one who:

- (i) is not a director or officer or substantial stockholder of the Corporation or of its related companies or any of its substantial shareholders (other than as an independent director of any of the foregoing).<sup>64</sup> In this context, “related company” means another company which is: (a) its holding company, (b) its subsidiary, or (c) a subsidiary of its holding company,<sup>65</sup> 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;<sup>66</sup>
- (ii) 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, “relatives” includes spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;<sup>67</sup>
- (iii) 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;<sup>68</sup>
- (iv) 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;<sup>69</sup>
- (v) is not retained as professional adviser of the Corporation, any of its related companies or any of its substantial shareholders within the last five (5) years, either personally or through his firm;<sup>70</sup>
- (vi) 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.<sup>71</sup>

The types of transaction or affiliation under paragraph (vi) above which disqualify one from becoming an Independent Director include:

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<sup>64</sup> SEC Memorandum Circular No. 16, s. 2002, II. A. i.

<sup>65</sup> SEC Memorandum Circular No. 16, s. 2002, II. B. i.

<sup>66</sup> SEC Memorandum Circular No. 16, s. 2002, II. B. ii.

<sup>67</sup> SEC Memorandum Circular No. 16, s. 2002, II. A. ii.

<sup>68</sup> SEC Memorandum Circular No. 16, s. 2002, II. A. iii.

<sup>69</sup> SEC Memorandum Circular No. 16, s. 2002, II. A. iv.

<sup>70</sup> SEC Memorandum Circular No. 16, s. 2002, II. A. v.

<sup>71</sup> SEC Memorandum Circular No. 16, s. 2002, II. A. vi.

- (1) personal service contracts with the Corporation, or any of its related companies, or its senior management;
- (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;
- (3) being affiliated with a non-profit organization that receives significant funding from the Corporation, or any of its related companies;
- (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
- (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 has been.<sup>72</sup>

An independent director shall be disqualified during his tenure under the following instances or causes:

- (1) He becomes an officer or employee of the Corporation or becomes any of the person enumerated above;
- (2) He fails to meet the attendance requirement as set forth in Section 5.3 of the Board Charter; or
- (3) His beneficial security ownership in the Corporation or in any of its related companies exceeds two per cent (2%), in which case the Corporation shall forthwith cease to consider him as independent director until his beneficial security ownership is reduced to two percent (2%) or lower.<sup>73</sup>

## **II. IDs for Compliance with ASEAN Standards**

An Independent Director under the ASEAN Standards shall also possess the qualifications and none of the disqualifications for an Independent Director under the Philippine Requirements provided and except that, when relevant in the application of the qualifications and disqualifications, a “substantial stockholder” shall mean a stockholder who possesses the power to direct or govern, directly or indirectly, the financial and operating policies of the Corporation so as to obtain benefits from its activities.

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<sup>72</sup> National Association of Securities Dealers Automated Quotations (NASDAQ) Rule 4200, a(15).

<sup>73</sup> Revised Corporate Governance Code, Article 3. E) 2. (iv).

## Annex B

### Guidelines in Conducting Performance Assessments

Annual performance assessments of the Board, the individual Directors, the Board Committees, and the President and CEO and key management officials shall be conducted in accordance with the following guidelines:

#### I. For the performance assessment of the Board

The Board shall conduct a self-evaluation where all the board members shall participate. An outside consultant may be employed to conduct simultaneous evaluation of the Board's performance. In evaluating the Board's performance, the following criteria/factors shall be considered:

- (i) *Knowledge* – Whether the Board possesses adequate information on industry trends and overall business environment;
- (ii) *Strategy and Implementation* – Whether the Board has adopted appropriate corporate strategy and whether the same has been effectively implemented;
- (iii) *Risk Management* – Whether the Board has a keen understanding of the types of risks to which the Corporation may be exposed and would be vulnerable, and whether it has adopted appropriate systems and processes to manage these risks;
- (iv) *Corporate Ethics* – Whether the Board has taken the lead role to ensure faithful compliance with all the applicable laws and rules, and the Corporation's By-laws, Manual of Corporate Governance, Code of Conduct and Ethics, and other relevant company policies; and
- (v) *Internal Control/Oversight Function* – Whether the Board has taken reasonable steps to ensure that the Corporation is properly managed, including monitoring of the operational and financial results

#### II. For the performance assessment of the Directors

The Board shall assess the performance of its individual members. In evaluating the performance of each Director, the following criteria/factors shall be considered:

- (i) *Knowledge* – Whether the Director has an in-depth knowledge of the Corporation's business and strategic direction;
- (ii) *Participation* – Whether the Director attended all, some or only a few of the meetings of the Board and of the committees in which he/she is a member, and whether he/she made valuable contributions in the discussion of matters before the Board and/or the committees; and
- (iii) *Fair Dealing* – Whether the Director conducted fair business transactions with the Corporation and ensured that his/her personal interest did not conflict with the interest of the Corporation

### **III. For the performance assessment of the Board Committees**

The Board Committees shall assess their respective performance. The Board may conduct simultaneous evaluation of the performance of each Board Committee. In evaluating the performance of the Board Committees, the following criteria/factors shall be considered:

- (i) *Committee Organization* – Whether the Committee is composed of appropriate number of Directors with the right balance of skills, experiences and backgrounds to ensure the proper performance of the roles and responsibilities of the Committee;
- (ii) *Committee Meetings* – Whether the Committee had adequate number of meetings to sufficiently focus on significant matters of concern; and
- (iii) *Committee Processes and Procedures* – Whether the Committee adopted processes and procedures to ensure timely resolution of matters before it.

### **IV. For the performance assessment of the President and CEO, and other key management officials**

The Board shall assess the performance of the President and CEO, and other key management officials. In evaluating their performance, the following criteria/factors shall be considered:

- (i) *Compliance* – Whether the President and CEO, and other key management officials have taken steps to ensure the Corporation's compliance with all the legal requirements in the management of its affairs;
- (ii) *Administration* – Whether the President and CEO, and other key management officials have effectively managed the day-to-day operations of the Corporation towards the achievement of the organization's goals and objectives;
- (iii) *Knowledge, Skills and Competence* – Whether the President and CEO, and other key management officials possess appropriate knowledge, skills and competence essential to the due performance of duties;
- (iv) *Corporate Ethics* – Whether the President and CEO, and other key management officials have consistently demonstrated integrity and observed the corporate core values; and
- (v) *Board-Management Relationship* – Whether the President and CEO, and other key management officials have worked closely with the Board and provided the latter with complete, adequate information on the operations and affairs of the Corporation in a timely manner.