



**AYALA PLANS, INC.**  
A subsidiary of the Bank of the Philippine Islands

# **AP CORPORATE GOVERNANCE MANUAL**

**(Revised April 2024)**



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## **I. CORPORATE GOVERNANCE PHILOSOPHY**

The Board of Directors and Management, employees and shareholders of the Ayala Plans, Inc. (AP) believe that sound and effective corporate governance is the cornerstone of AP's strength and long-term existence. It subscribes to a philosophy of adhering to honesty, integrity, and professionalism in the conduct of its business, exercising prudence in arriving at decisions, enforcing internal discipline and a system of checks and balances in its operating processes, and providing transparency to its various publics regarding basic management policies and practices, major business strategies and decisions, and its operating results.

The Board of Directors and Management hereby commit themselves to the principles and practices contained in this Manual and acknowledge that the same will guide them in pursuing their corporate goals. They shall also undertake every effort necessary to create the necessary awareness of these principles and practices within the organization in order to ensure proper internalization by every member of the organization.

This Manual of Corporate Governance supplements and complements AP's Articles of Incorporation and By-Laws by setting forth principles of good and transparent governance.

## **II. GOVERNANCE STRUCTURE**

### **A. Board of Directors**

The Board of Directors (the Board) bears the primary responsibility for creating and enhancing the long-term shareholder value of AP and ensuring that this objective is achieved in all its business activities. It must ensure AP's ability to satisfy the needs of its customers, sustain its leadership and competitiveness, and uphold its reputation in order to maintain AP's long-term success and viability as a business entity. Its mandate consists of setting the strategic business directions of AP, appointing its senior executive officers, confirming its organizational structure, approving all major strategies and policies, overseeing all major risk-taking activities, monitoring the financial results, measuring and rewarding the performance of management, and generating a reasonable investment return to shareholders. It shall also provide an independent check on management.

### **B. Composition**

The Board of Directors shall have five (5) members who shall be elected by the AP stockholders entitled to vote at the annual meeting and shall hold office for one (1) year and until their successors are elected and qualified in accordance with the By-Laws of the corporation.

As a corporation supervised by the Insurance Commission (IC), AP shall conform to the legal requirement to have at least two (2) independent directors. The independent directors shall be identified in the annual report.



### **C. Qualification of Directors**

A director of AP shall have the following qualifications:

1. Ownership of at least one (1) share of the capital stock of AP.
2. At least twenty five (25) years of age.
3. Possesses necessary skills, competence, and experience in terms of management capabilities preferably in the field of insurance or insurance-related disciplines.
4. Possesses integrity, probity and shall be diligent and assiduous in the performance of his functions.
5. Adequate physical health and mental stamina to withstand the rigors of his responsibilities.
6. No potential conflict of time and attention due to competing officerships, directorships, memberships position in other corporations.
7. Attendance of an accredited corporate governance seminar, as required by the IC.
8. No disqualifications as provided for in the Corporation Code and IC Circulars.

### **D. Disqualification of Directors**

#### **1. Permanent Disqualification**

The following shall be deemed unfit and disqualified from serving as a Director:

- a. Persons who have been convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft.
- b. Persons who have been convicted by final judgment of the court for violation of insurance laws.
- c. Persons with derogatory records with the NBI, court, police, Interpol and insurance authorities of other countries (for foreign directors) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of an insurance director. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity.
- d. Persons who are delinquent in the payment of their obligations as defined hereunder:



- i. Delinquency in the payment of obligations means that obligations of a person with the insurance company or its related companies where he/she is a director or officer; or at least two obligations with other insurance companies, under different credit lines or loan contracts.
- ii. Obligations shall include all borrowings from an insurance company, or its related companies obtained by:
  - A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorsers, or surety for loans from such institutions;
  - The spouse or child under the parental authority of the director or officer.
  - Any person whose borrowings or loan proceeds were credited to the amount of, or used for the benefit of a director or officer;
  - A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
  - A corporation, association or firm wholly-owned or majority of the capital is contributed by any or a group of persons mentioned in the foregoing items 1, 2, and 4.

## **2. Temporary Disqualification**

The following are grounds for temporary disqualification of incumbent directors:

- a. Persons who refuse to fully disclose the extent of their business interests when required pursuant to a provision of law or of a circular, memorandum or rule or regulation of the Insurance Commission. This disqualification shall be in effect as long as the refusal persists.
- b. Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special of the Board of Directors during their incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding elections.
- c. Persons convicted for offenses involving dishonesty, breach of contract or violation of insurance laws but whose conviction has not yet become final and executory.
- d. Directors and officers of closed pre-need companies pending clearance from the Insurance Commission.
- e. Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification by the Insurance Commission.



- f. Directors who failed to attend the special seminar on corporate governance. This disqualification applies until the director concerned had attended such seminar.
- g. Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity.
- h. Those under preventive suspension.
- i. The Board may establish a fixed retirement age policy for directors.

#### **E. Independent Directors**

Independent directors shall hold no interests or relationships with AP that may hinder their independence from AP or Management which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. An independent director shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with AP, management or controlling shareholder at the time of his election or appointment and/or re-election as a director.

1. Moreover, for purposes of compliance with the legal requirement on independent directors-
  - a. Officers, executives and employees of AP may be elected as directors but cannot and shall not be characterized as independent directors;
  - b. If a director elected or appointed as an independent director subsequently becomes an officer or employee of AP, AP shall forthwith cease to consider him as an independent director;
  - c. If the beneficial security ownership of an independent director in AP or in its related companies or any of its substantial stockholders shall exceed the two percent (2%) limit, AP shall forthwith cease to consider him as an independent director. The disqualification shall be lifted if the limit is later complied with;
  - d. If the director is related to any director, officer, or substantial shareholder of AP or any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother, or sister;
  - e. If the director is acting as a nominee or representative of any director or substantial shareholder of AP and/or any of its related companies and/or any of its substantial shareholders pursuant to a Deed of Trust or under any contract or arrangement;
  - f. If the director has been employed in any executive capacity by AP, any of its related companies and/or by any of its substantial shareholders within the last five (5) years;



- g. If the director is retained, either personally or through his firm or any similar entity, as professional adviser by AP, any of its related companies and/or any of its substantial shareholders, within the last five (5) years; or
- h. If the director engaged and about to engage in any transaction with AP and/or with any of its related companies and/or any of its substantial shareholders whether by himself and/or with other persons and/or through a firm of which that director is a partner and/or a company of which he is director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial;
- i. A regular director who resigns or whose term ends on the day of the election shall only qualify for nomination and election as an Independent Director after a two (2) year "cooling off period";
- j. Persons appointed as Chairman "Emeritus", "Ex-Officio" Directors/Officers or Members of any Executive/Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties shall be subject to a one (1) year "cooling-off period" prior to his qualification as an Independent Director.

## **2. Number of Independent Directors**

AP shall have independent directors constituting at least twenty percent (20%) of the members of the board.<sup>1</sup>

## **3. Qualifications and Disqualifications of Independent Director**

- a. An independent director shall have the following qualifications:
  - i. An independent director shall be at least a college graduate or shall have been engaged or exposed to the business of the corporation for at least five (5) years;<sup>2</sup>
  - ii. He or she shall possess proven integrity, probity, and independence;<sup>3</sup>
  - iii. An independent director shall be one who is not or was not a regular director, officer or employee of the covered entity, its subsidiaries or affiliates or related companies during the past three (3) years counted from the date of his election/appointment;<sup>4</sup>
  - iv. He or she is not or was not a regular director, officer or employee of the covered entity's substantial stockholders and their related companies during the past three (3) years counted from the date of his/her election/appointment;<sup>5</sup>
  - v. He or she is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the company, or any of its related companies, or of any of its substantial shareholders;<sup>6</sup>

<sup>1</sup>IC Circular Letter No. 2019-36 Section 1.

<sup>2</sup>IC Circular Letter No. 2018-36 C.1

<sup>3</sup> IC Circular Letter No. 2018-36 C.2

<sup>4</sup> IC Circular Letter No.2018-36 B.1

<sup>5</sup> Ibid B.2

<sup>6</sup> IC Circular Letter No. 2018-36 B.3





- vi. He or she is not a relative by affinity or consanguinity within the fourth (4<sup>th</sup>) degree of a director, officer, or stockholder holding shares of stock sufficient to elect one (1) seat in the board of the company or any of its related companies or of any of its substantial stockholders;<sup>7</sup>
  - vii. He or she is not acting as nominee or representative of any director or substantial shareholder of the company, any of its related companies, or any of its substantial shareholders;<sup>8</sup>
  - viii. He or she is not or was not retained as professional adviser, auditor, consultant, agent, or counsel of the company, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his/her firm during the past three (3) years counted from the date of his election/appointment;<sup>9</sup>
  - ix. He or she is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the company, 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 arm's length and could not materially interfere with or influence the exercise of his judgment;<sup>10</sup>
  - x. He or she was not appointed in the company, its subsidiaries, affiliates, or related companies as Chairman "Emeritus", "Ex-Officio", Regular Directors, Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors, in the performance of its duties and responsibilities during the past three (3) years counted from the date of his/her election/appointment;<sup>11</sup>
  - xi. He or she is not affiliated with any non-profit organization that receives significant funding from the company or any of its related companies or substantial shareholders; and <sup>12</sup>
  - xii. He or she is not employed as an executive officer of another company where any of the company's executives serve as regular directors.<sup>13</sup>
- b. No person enumerated under Disqualification for Directors of this Corporate Governance Manual (Disqualifications for Directors) shall qualify as an independent director. He shall likewise be disqualified during his tenure under the following instances or causes:
- i. He becomes an officer or employee of AP where he is such member of the board of directors/trustees, or becomes any of the persons enumerated under Disqualification for Directors of this Corporate Governance Manual;

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<sup>7</sup> Ibid B.4

<sup>8</sup> Ibid B.5

<sup>9</sup> Ibid B.6

<sup>10</sup> Ibid B.8

<sup>11</sup> Ibid B.9

<sup>12</sup> Ibid B.10

<sup>13</sup> Ibid B.11





- ii. His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of AP where he is such a director, and;
  - iii. Such other disqualifications which this Manual of Governance provides.
- c. Term Limits of Independent Director:<sup>14</sup>
- i. An Independent Director shall serve for a maximum cumulative term of nine (9) years.
  - ii. An Independent Director who served the maximum period shall be perpetually barred from any re-election in the company but may continue therein as a non-independent director.
  - iii. However, if the company desires to continue the services of an Independent Director who had already served his/her maximum term limit, said Independent Director, as an exception, may still continue to act as such provided that the company submits to the Insurance Commission a formal written justification and must, in addition thereto, acquire the majority of the shareholders' approval during the annual meeting.

For current IDs, commencement date shall be counted from September 21, 2016.

- d. Procedures in Nomination and Election of Independent Directors:
- i. The Nomination Committee (the "Committee") shall have at least three (3) members, one of whom is an independent director. It shall promulgate the guidelines or criteria to govern the conduct of the nomination. The same shall be properly disclosed in the AP's information or proxy statement or such other reports required to be submitted to the Securities and Exchange Commission (SEC).
  - ii. Nominations of independent director/s shall be conducted by the Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.
  - iii. The Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent director/s.
  - iv. After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent directors, to be made available to the SEC and to all stockholders through the filing and distribution of the Information Statement, or in such other reports the company is required to submit to SEC. The name of the person or group of persons who recommended the nomination of the Independent Director shall be identified in such report including any relationship with the nominee.

<sup>14</sup> IC Circular Letter No. 2018-36 D



- v. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director/s. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders'/memberships' meeting.
- vi. Election of Independent Director/s
  - Except as those required under the SEC Rule and subject to pertinent laws, rules and regulations of the SEC, the conduct of the election of independent director/s shall be made in accordance with the standard election procedures of AP's By -Laws.
  - It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent director/s. He shall ensure that independent directors are elected during the stockholders' meeting.
  - Specific slot/s for independent directors shall not be filled-up by unqualified nominees.
  - In case of failure of election for independent director/s, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

vii. Termination/Cessation of Independent Directorship

In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the SEC within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors if still constituting a quorum, upon the nomination of the Committee otherwise, said vacancies shall be filled by the stockholder in a regular or special meeting called for that purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

AP shall, as appropriate, provide independent directors with technical support staff to assist them in performing their duties for such committees. Independent directors may, when necessary, also request and receive support from executives, employees, or outside professionals such as auditors, advisers, and counsel to perform such duties. AP shall cover the reasonable expenses of providing such support.

## **F. Performance Evaluation**

The evaluation of the Board, Committee and Director involves review of their own performance, identifying strengths, weaknesses and implementing plans for further professional development. The provision of feedback on board performance and governance processes is the most crucial element of said evaluation and is the means by



which the Board of Directors achieves consensus on targeted improvements. Self-assessments are to be carried out annually and shall be held in utmost confidentiality.

The self-assessments focus on individual director performance as well as the collective performance of the Board and its Committees, operating as a whole and are built around the Terms of Reference for the Board and Committee Charters. Key evaluation factors of the assessments include: the functions of the board, board strategy and effectiveness, board structure and committees, board and management relations, succession planning and training and value creation.

The results of these evaluations shall be presented to the Board.

A key objective of the performance evaluation is to also be able to highlight the strengths of the company's corporate governance system where such improvement initiatives can be highlighted in targeted communications to strengthen shareholder and stakeholder confidence.

There are four (4) major levels to the evaluation:

**1. Board-level Assessment of the body as a whole**

The Board of Directors needs to assess its own achievement of goals and working style, i.e., actual operations and work of the Board with respect to the company's business model and strategy. Directors will also review the board's effectiveness with respect to current and future development challenges of the company, the continuous evolving expectations of its stakeholders and, if need be, existing communication on corporate governance matters.

**2. Committee-level Assessment of respective Board Committees**

All board-level committees are to evaluate annually the performance of the committee as a body and report the results to the Board or to such committee that may be appointed by the Board for review.

**3. Individual Director Self-Assessment**

**4. Board assessment of President and CEO**

**III. POLICY ON MULTIPLE BOARD SEATS**

- A. A director shall exercise due discretion in accepting and holding directorships outside of AP. A director should notify the Board before accepting a directorship in another company.<sup>15</sup>A director may hold any number of directorships outside of AP provided that, in the director's opinion, these other positions do not detract from the director's capacity to diligently perform his duties as a director of AP,

<sup>15</sup> IC Circular Letter No. 2020-71 Recommendation 4.3



- B. Any limitations in the number of directorship outside of AP shall not include directorships in AP's subsidiaries, affiliates, parent company, and affiliates and subsidiaries of the parent company.
- C. The non-executive directors of the Board should concurrently serve as directors to a maximum of five Insurance Commission Regulated Entities and Publicly Listed Companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the company.<sup>16</sup>

#### **IV. BOARD MEETINGS AND QUORUM REQUIREMENTS**

- A. Members of the Board should attend regular and special meetings of the Board in person or via teleconference or videoconference or by any other technological means allowed by law. The materials of the meeting are provided to the directors at least two (2) working days before the date of the actual meeting through a secure system.
- B. An independent director shall, as far as possible, be in attendance. However, the absence of an independent director may not affect the quorum requirements if he is duly notified of the meeting but notwithstanding such notice fails to attend.
- C. Action required or permitted to be taken by the Board or board committees may be taken without a meeting by written consents, identical in content, setting out the action taken and signed by all the members of the Board/committees. The written consents shall have the same effect as a unanimous vote and may be made in electronic counterparts. The written consents shall be documented as minutes of action.

Unanimous consent resolutions shall be documented as minutes of action. The written action is effective and dated as of the date that the last board or committee member (as the case may be) has given his/her consent by electronic mail, unless a different effectivity date is provided in the resolution.

- 1. Any member of the Board/Committee may request that the proposal for which a written consent is sought be discussed and deliberated upon by the Board/Committee, in which case the proposal shall be included in the agenda of the next meeting.
- 2. Directors shall be paid a per diem for every decision-making exercise or instance utilizing written unanimous consent resolutions, which is half the per diem allocated in an actual meeting (physical or virtual).

Board/Committee members will be furnished with copies of the minutes of each meeting and action taken by unanimous consent (i.e. minutes of action).

The Board of Directors shall ensure that each committee shall maintain appropriate records (e.g. minutes of meetings, minutes of action or summary of matters reviewed, and decisions taken).

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<sup>16</sup> IC Circular Letter No. 2020-71 Recommendation 4.2



The key matters reviewed and approved by the Committees and their minutes of meetings, minutes of action, including agenda and supporting materials if needed, are to be presented regularly to the full Board of Directors for confirmation.

## **V. DUTIES AND RESPONSIBILITIES OF THE BOARD**

The Board's specific duties and responsibilities shall include the following:

- A. Install a selection process to ensure the appointment of competent directors and officers.
- B. Define AP's principal mission, vision, and strategic objectives, and properly communicate these to the entire organization.
- C. Delegate specific approving authorities to operating management in pursuit of the strategic objectives of AP to ensure that operating management achieves these objectives.
- D. Nurture a corporate value system that is anchored on sound business ethical principles and strengthen AP's own basic core values of excellence, integrity, customer service, loyalty to the institution, teamwork, and concern for people.
- E. Provide appropriate policies on risk management, approve, and review the management and control systems & processes adopted by operating management to identify, measure, monitor and control those major risks impacting the business. Risk areas must encompass credit, market and liquidity risk, operating system risk, legal & regulatory risk, fiduciary / reputational risk.
- F. Monitor and assess the performance of management through a comprehensive and reliable financial reporting system.
- G. Ensure that AP contributes positively to the economy and the national well-being.
- H. Ensure that all activities of AP are in compliance with all pertinent laws and regulations and are within the bounds indicated in its Articles of Incorporation and By-Laws.
- I. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions 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.
- J. Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its stockholders, and the Corporation and third parties.
- K. Identify the AP's major stakeholder groups (e.g. shareholders, customers, employees, creditors, regulators) and adhere to a philosophy of transparency with respect to disclosing and communicating all material information relevant to these stakeholders.



- L. Discharge Board functions diligently by meeting regularly, defining a clear agenda for each meeting and minuting each meeting properly. Encourage independent views and discussions during Board meetings to ensure balanced deliberations and decisions. Ensure that all acts of the Board are within the powers prescribed in the Articles of Incorporation and By-Laws, relevant laws and regulations.
- M. Conduct itself with utmost honesty, competence, independence and professionalism.
- N. Evaluate the performance & effectiveness of the Board and its various committees, the CEO& operating management, through a formal evaluation process.
- O. To approve budget plans and monitor expenditures.

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

### **A. An AP director shall have the following duties and responsibilities:**

1. Accept the responsibility for creating and enhancing shareholder value and ensuring the long-term success and viability of AP.
2. Devote time and attention necessary to properly discharge his duties and responsibilities as Director.
3. Exercise sound and independent judgment at all times and ensure that personal interest does not bias any Board decision.
4. Understand and internalize the core values of AP.
5. Maintain a good working understanding of the various businesses of AP, the risks attendant to those businesses, and the risk measurement and control systems appropriate for such businesses, understand the competitive forces affecting AP and the key strategic performance factors necessary to attain leadership.
6. Maintain a good working knowledge of the statutory and regulatory requirements affecting AP, the requirements of the Insurance Commission (IC), Securities and Exchange Commission (SEC), the contents of its Articles of Incorporation and By-laws.
7. Conduct fair business transactions with AP and ensure that personal interest do not conflict with AP's interests; desist from any transaction where there is such a conflict of interest and any transaction that exploits insider information to generate personal gain.
8. Act with full transparency, fairness, independence, and sound judgment.
9. Observe confidentiality over all sensitive matters taken up by the Board.





## **B. Liability of Directors**

Directors who willfully and knowingly vote or consent to patently unlawful acts of AP or who are guilty of gross negligence or bad faith in directing the affairs of AP 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 AP, its stockholders, and other persons.

## **C. Compensation of Directors**

The Board of Directors shall determine a level of remuneration and/or benefits for Directors that shall be sufficient to attract and retain directors and compensate them for attendance at meetings of the Board and Board Committees, and performance of numerous responsibilities and undertaking certain risks as a Board member. The compensation, which may be in various forms shall be fixed by way of a resolution of the Board of Directors. The Board of Directors may provide that only non-executive directors shall be entitled to such compensation.

## **VII. TRAINING/ORIENTATION**

- A. The Board undertakes to require a newly elected member of the Board to attend, within a reasonable period after his election to the Board, a seminar on corporate governance conducted by a duly recognized private or government institution.
- B. The newly elected members of the Board should familiarize themselves with the AP's operations, senior management, and business environment. They should also be inducted in terms of their fiduciary duties and responsibilities as well as in respect of the Board's expectations.
- C. Appropriate training opportunities for both existing and potential directors may, from time to time, be identified and undertaken.

The Board should ensure attendance to an 8-hour orientation program for first time directors and 4-hour relevant continuing training for all directors.

## **VIII. BOARD COMMITTEES**

The Board may delegate specific responsibilities to other sub-committees for specialized areas of focus within the limits allowed by law.

### **A. Nominations Committee**

The Nomination Committee shall be composed of at least three (3) members of the Board, one (1) of whom shall be an independent director. The committee shall have the following functions:





1. Ensure that all directors to be nominated for election at the next Annual General Stockholders meeting have the qualifications and none of the disqualifications and that their nominations are fair, transparent and in compliance with applicable laws, rules, and regulations as well as the Corporation's By-Laws and Manual of Corporate Governance.
2. Encourage the formal, fair, and transparent selection of a mix of competent directors in alignment with BPI's Board Diversity Policy, each of whom can add value and create independent judgment as to the formulation of sound corporate strategies and policies.
3. Review and evaluate the qualifications of all persons nominated to positions in the Corporation which require appointment by the Board, providing guidance and advice as necessary for appointments made by the Chairman or President.

#### **B. Personnel Compensation Committee**

The Personnel Compensation Committee (PerCom) shall be composed of at least three (3) members of the Board who are not officers of AP and one (1) of whom shall be an independent director. The committee shall take charge of the remuneration and incentive plans for directors and officers and shall have the following duties and responsibilities:

1. The Committee acknowledges that the BPI group manages human capital as a group resource and likewise acknowledges the BPI Board's oversight function and authority in the implementation of a group-wide remuneration policy and requisite Human Resources policies and programs.
2. Annually review and approve corporate goals and objectives relevant to CEO compensation, the board of directors, senior management, and key officers to enable AP to attract and keep superior human talent in its fold.
3. Annually review and approve base salary, incentive compensation for senior management, board of directors, key officers and recommend appropriate remuneration package to the Board for approval.
4. Ensure the establishment, documentation through a formal manual, timely dissemination and proper implementation of personnel policies and guideline covering:
  - a. AP's Core Corporate Values
  - b. Policies on Conflict of Interest
  - c. Information on Hiring and Training Programs
  - d. Salaries and Benefits
  - e. Performance evaluation
  - f. Promotions
  - g. Career Advancement



- h. Code of Conduct including sanctions on non-compliance with the code of conduct and/or management policies
5. Review and approve recommendations for promotions to and from the rank of Assistant Manager and up and submit to the Board for confirmation/approval.
6. Review and endorse proposals on Early Retirement Program as well as any severance payment or similar termination payments proposed to be made by AP to its officers and staff.
7. Review the impact on compensation, the plans of mergers, spin-offs and other similar organizational or operating changes.
8. Review together with the CEO, the talent development process within AP. Senior management will provide the PerCom an annual report regarding its talent and performance review process for key officers and other high potential individuals. The purpose of the performance and talent review is to ensure that there is a sufficient pool of qualified internal candidates to fill senior and leadership positions and to identify opportunities, performance gaps and next steps as part of the Company's executive succession planning and development process, all of which shall be reviewed with the PerCom.
9. Review of Personnel Handbook.
10. Perform an annual review of PerCom's performance. Periodically assess the adequacy of its charter and recommend changes to the Board as needed.
11. Exercise such powers and duties as may from time to time be delegated by the Board to the PerCom.

### **C. Audit Committee**

The Audit Committee shall be composed of at least three (3) members of the Board, who shall all be non-executive directors, majority of whom shall be independent directors, including the Chairman preferably with accounting, auditing or related financial management expertise or experience. The chairman of the Audit Committee shall not be the Chairman of the Board or of any other committees.<sup>17</sup> The Chief Executive Officer, Chief Financial Officer and/or Treasurer, or officers holding equivalent positions shall not be appointed as members of the Audit Committee.

The selection and appointment of the Audit Committee members, including its Chairman shall rest with the Board in accordance with the existing rules and regulations.

#### **1. Authority of the Audit Committee**

The Committee is empowered by the Board to:

- a. Investigate any matter within its terms of reference.

<sup>17</sup> IC Circular (CL) No. 2020-71 Revised Code of Corporate Governance for Insurance Commission Regulated Companies, Recommendation 3.2.



- b. Seek any information it requires from employees, all of whom are directed to fully cooperate with the Committee's requests.
- c. Obtain assurances, and when appropriate, reports from AP officers, external auditors, or outside counsel.
- d. Invite any director or executive officer to attend its meetings.
- e. Secure adequate resources to enable it to effectively discharge its functions.

## **2. Duties and Responsibilities**

- a. General Procedures
  - i. Review and reassess adequacy of Audit Committee Charter at least annually and submit the revised Charter, if any, to the Board for re-approval.
  - ii. Undertake an annual evaluation assessing its performance with respect to its purposes and its duties and tasks set forth in the Audit Committee Charter, with such evaluation being reported to the Board of Directors.
  - iii. Ensure that a review of the effectiveness of the Company's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.
- b. Internal Audit
  - i. AP shall adopt the parent BPI's Internal Audit Charter, where applicable.
  - ii. By virtue of the BSP approved assignment of the BPI's Chief Audit Executive as the Audit Head of all its subsidiaries, the BPI's Internal Audit Charter shall be applied to AP.
  - iii. The Chief Audit Executive shall report directly to the Audit Committee.
  - iv. Review the internal audit function including its independence and the authority of its reporting relationships. Ensure that the Chief Audit Executive is not dependent on any AP executive or operating officer for the security of his or her position. Additionally, to ensure that the Chief Executive has access to the Board, on a confidential basis, and that the Internal Audit is independent of AP management, both by intent and actual practice.
  - v. Review and approve the annual internal audit risk assessment and plan, including the audit scope and frequency, and any significant changes to the internal audit plan. It shall also review at the end of calendar year the implementation of the approved internal audit plan. The Audit Committee



should also approve the terms and conditions for outsourcing internal audit services, if any.

- vi. Review the final audit reports prepared by the Internal Audit for matters deemed significant by the Chief Audit Executive and ensure that senior management is taking the necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.
  - vii. Ensure that internal auditors have free and full access to all AP's records, properties, and personnel relevant to and required by its function and that the Internal Audit shall be free from interference in determining its scope, performing its work, and communicating its results.
  - viii. Ensure that Internal Audit complies with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and Code of Ethics.
- c. External Audit
- i. Ensure that that a BSP/SEC accredited external auditor had been appointed by the BPI Board of Directors and Stockholders for the purpose of preparing or issuing an audit report or related work. External auditor shall be selected from the List of Selected External Auditors for BSFIs under the Bank's category<sup>18</sup>. Assess the external auditor's effectiveness, integrity, independence, and objectivity ensuring that key partners of the audit firm are rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy<sup>18</sup> and remove the external auditors if circumstances warrant. The Committee shall oversee the resolution of disagreements between management and the external auditors in the event that they arise.
  - ii. Review with the internal auditor the scope of the proposed external audit for the current calendar year, considering the coordination of internal and external audit procedures to promote an effective use of resources and ensure a complete but non-redundant audit.
  - iii. Approve all audit and non-audit services to be provided by the external auditor to AP. The Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to its independence. The non-audit work, if allowed, shall be disclosed in the Company's annual report and Annual Corporate Governance report.
  - iv. The Committee should ensure that no external auditor may be engaged by AP if he/she or any member of his/her immediate family had or has committed to acquire any direct or material indirect financial interest in the company.

<sup>18</sup> Adopted from BPI Audit Committee Charter, pursuant to BSP Cir 1040 series of 2019 Revised Framework on the Selection of External auditors. This circular is in accordance with the cooperative arrangement among the financial sector supervisors which include the Insurance Commission.



- v. Ensure that external auditors have free and full access to all the Corporation's records, properties, and personnel to enable them to perform their functions.
- d. Financial Statements and Disclosure Matters
- i. Review and discuss with management the quarterly financial reports, and with the external auditor the annual financial statements, before submission to the Board, focusing on changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, and compliance with tax and legal and stock exchange requirements.
  - ii. Review and discuss with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including any significant changes in the selection or application of accounting principles, any major issues as to the adequacy of internal controls and any special steps adopted in light of material control deficiencies.
  - iii. Review with the external auditor any problems or difficulties encountered and management's response; review the external auditor's attestation and report on management's internal control report, and hold timely discussions with the external auditors regarding the following:
    - all critical accounting policies and practices;
    - all alternative treatments of financial information within generally accepted accounting principles (GAAP) and the International Accounting Standards (IAS) that have been discussed with management, implications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor;
    - other material written communications between the external auditor and management including, but not limited to, the management letter, and schedule of unadjusted differences; and
    - an analysis of the auditor's judgment as to the quality of the AP's accounting principles, setting forth significant reporting issues and judgments made in connection with the preparation of the financial statements.
  - iv. Receive and review reports of external auditors, including reports of regulatory agencies, and ensure that management is taking appropriate corrective actions in a timely manner in addressing control and compliance functions with regulatory agencies.
- e. Internal Controls
- i. Ensure that a review of the internal auditor's evaluation of the effectiveness of the internal controls, including financial, operational, information technology, and compliance controls, and risk management, is at least conducted annually.



- ii. Discuss with management the Company's major risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management processes, policies and control and governance processes.
- iii. Oversee the quality of compliance by operating management in their performance of the following tasks:
  - employing the proper documentation to ensure enforceability of rights and contracts;
  - employing appropriate technology and operating hardware and software systems to ensure the proper recording, storage, retrieval and analysis of transaction data;
  - installing the appropriate control mechanisms, systems and processes (e.g., policy manuals, risk measurement and control systems, performance reports, internal audit programs, reviews, and reports, external audit program and reports, etc.) to ensure the identity and authority of counterparties, the validity and integrity of transactions and data, and the competent management of risks;
  - ensuring the preparation of contingency plans to ensure business continuity in the event of any major crisis;
  - ensuring the alignment of financial accounting, measurement, reporting and auditing methodologies and practices with international standards and best practices;
  - ensuring full compliance with the law and regulations and the specific requirements of the IC, SEC, AMLC and other regulatory bodies, where applicable.
- iv. Ensure that AP maintains its compliance with the international standards on accounting processes, practices, and methodologies.
- v. Ensure sound operation of a transparent financial management system that will ensure the integrity of internal control activities throughout AP through a procedures and policies handbook that will be used by the entire organization.
- vi. Ensure that AP has a framework for fraud prevention and detection including whistle-blower policy/program by which officers and staff shall, in confidence, raises concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.





#### **D. Related Party Transactions**

The Committee is responsible for the following:

1. Evaluate on an on-going basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships shall be reflected in the relevant reports to the board and regulators/supervisors.
2. Evaluate all material RPTs to ensure that these are not undertaken on more favourable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee shall take into account, among others, the following:
  - a. The related party's relationship to the Company and interest in the transactions;
  - b. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - c. The benefits to the Company of the proposed RPT;
  - d. The availability of other sources of comparable products or services; and
  - e. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs. All RPTs that are considered material based on the Company's internal policies shall be endorsed by the RPT Committee to the Board of Directors for approval.
3. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the Company's affiliation or transactions with other related parties.
4. Report to the Board of Directors on a regular basis, the status, and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
5. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.





6. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.
7. Assist the Board in assessing material agreements of any kind with a related party in determining whether to approve, ratify, disapprove, or reject a Related Party Transaction. The Committee shall take into account whether the RPT is entered into on terms no less favourable to the Company than terms generally available to an unaffiliated third-party under the same or similar circumstances.
8. For transaction involving a sale of the Company's asset, review results of the appraisal, valuation methodology used as well as alternative approaches to valuation.
9. Assess the extent of the Related Party's interest in the transaction:
  - a. Term of the transaction;
  - b. The Related Party's interest in the transaction;
  - c. The purpose and timing of the transaction;
  - d. Whether the Company is a party to the transaction and if not, the nature of the Company's participation in the transaction;
  - e. If the transaction involves the sale of an asset, a description of the asset including date acquired and costs basis;
  - f. Information concerning potential counterparties in the transactions;
  - g. The approximated value of the transaction and the approximated value of the Related Party's interest in the transaction;
  - h. Description of any provisions or limitations imposed as a result of entering into the proposed transactions;
  - i. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction; and
  - j. Purpose of the transaction and potential benefits to AP.
10. Require adequate and accurate information from the Management.
11. Review the adequacy of Management's monitoring and reporting systems on RPTs.
12. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs.



13. Review and assess the adequacy of this Charter at least annually and obtain approval of any revisions to this Charter from the Board of Directors.

## **IX. RISK MANAGEMENT**

The committee shall nurture a culture of risk across the entity and shall implement and oversee the enterprise risk management program to assist the Board in fulfilling its corporate governance responsibilities relating to the management of risks.

### **A. Authority of Risk Management Committee**

1. Form sub-committees and delegate its risk management functions to sub-committees or line management as may be deemed necessary.
2. Require / receive reports from the management committees and personnel that are necessary to monitor and assess capital adequacy and risk exposures and their implications.
3. Recommend to the Board capital management and risk management policies.

### **B. Duties and Responsibilities (may be delegated to the appropriate sub-committee or line management.)**

1. Develop, implement, and oversee the risk management program.
2. Identify and assess risk exposures.
3. Perform other functions as may be mandated by the Board relating to the management of the entity's capital and risks covering credit, market, operating, reputational, strategic, and other risks.

## **X. OPERATING MANAGEMENT**

The responsibility of managing AP and implementing all major business strategies rests on the President and Chief Executive Officer who is in turn supported by his Senior Management Team.

Operating management is guided by specific objectives and deliverables that are pre-defined through a formal planning and budgeting process. These objectives must be supported with a well-defined set of operating policies and procedures to ensure accuracy of reports, integrity, fairness & transparency, customer satisfaction, efficiency, and management accountability in the conduct of business.

In addition, specific management committees addressing key risks like financial markets and liquidity, operations, support operating management to ensure that all major risks are identified, measured, controlled through the imposition of appropriate limits. These management committees include a) Credit Committee for credit risk; b) Finance and Risk



Management Committee, for financial market and liquidity risks; c) Investment Committee, for asset management/investment advisory risks.

Operating management, in turn, is subjected to a formal performance evaluation system that administers rewards and compensation adjustments based on the attainment of business objectives.

## **XI. EXECUTIVE OFFICERS OF AP**

The Executive Officers of AP are the Chairman, the President and Chief Executive Officer, the Treasurer, and the Corporate Secretary. The Executive Officers shall be appointed by the Board of Directors. In addition, the Board of Directors shall appoint (from time to time) such other senior officers as provided for in the AP By-Laws.

The position of Chairman of the Board and Chief Executive Officer should be held by separate individuals, and each should have clearly defined and delineated responsibilities.

The Board should designate a lead director among the independent directors if the Chairman of the Board is not independent, including if the positions of the Chairman of the Board and Chief Executive Officer are held by one person.

### **A. CHAIRMAN OF THE BOARD**

The Chairman of the Board shall, when present, preside at all meetings of the Board and shall render advice and counsel to the President. He shall:

1. Ensure that the meetings of the Board are held in accordance with the By-Laws of the Company or as the Chairman may deem necessary;
2. Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors;
3. Maintain qualitative and timely lines of communication and information between the Board and Management;
4. Exercise control over quality, quantity, and timeliness of the flow of information between Management and the Board; and
5. Assist in ensuring compliance with the Company's guidelines on corporate governance.

The Chairman shall have such other responsibilities as the Board of Directors may impose upon him.



## **B. PRESIDENT/CEO/OIC**

Minimum internal control mechanisms for management's operational responsibility shall center on the President/CEO/OIC, being ultimately accountable for the Corporation's organizational and procedural controls. In addition to the duties imposed on the President/CEO/OIC by the Board of directors, the President/CEO/OIC shall:

1. Have general supervision of the business, affairs, and property of the Corporation, and over its employees and officers;
2. See that all orders and resolutions of the Board of Directors are carried into effect;
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 AP for the preceding year, and the state of its affairs;
4. Report to the Board from time to time all matters within its knowledge which the interest of AP may require to be brought to their notice.

The President/CEO/OIC shall have such other responsibilities as the Board of Directors may impose upon him.

## **C. TREASURER**

The Treasurer shall have charge of the funds, securities, receipts, and disbursements of AP. He shall have the following functions:

1. Deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of AP in such banks or trust companies or with such bankers or other depositories as the Board may from time to time designate;
2. To render an annual statement showing the financial condition of the corporation and such other financial reports as the Board of Directors, the Chairman, or the President may, from time to time require;
3. Ensure funds availability on a timely basis and at the most economical means;
4. Optimize yields in temporary excess funds;
5. Provide relevant and timely capital market information;
6. Ensure appropriate coverage and management of risk to resources.

The Treasurer shall have such other responsibilities as the Board of Directors may impose upon him.



#### **D. CORPORATE SECRETARY**

The Corporate Secretary shall be a resident and citizen of the Philippines. His loyalty to the mission, vision, and specific business objectives of AP comes with his duties. Considering his varied functions and responsibilities, he must possess organizational and interpersonal skills, and the legal skills of a chief legal officer. He must also have some financial and accounting knowledge.

The Corporate Secretary shall have the following functions:

1. Serve as an adviser to the directors on their responsibilities and obligations;
2. Keep the minutes of meetings of the stockholders, the Board of Directors, the Executive Committee, and all other committees in a book or books kept for that purpose, and shall furnish copies thereof to the Chairman, the President and other members of the Board as appropriate;
3. Have charge of the stock certificate book and such other books and papers as the Board may direct;
4. Attend to the giving and serving of notices of Board and shareholder meetings;
5. Be fully informed and be part of the scheduling process of other activities of the Board;
6. Prepare an annual schedule of board meetings and the regular agendas of meetings, and put the Board on notice of such agenda at every meeting;
7. Oversee the adequate flow of information to the Board prior to meetings;

The Corporate Secretary shall have such other responsibilities as the Board of Directors may impose upon him. This includes the annual attendance of training on corporate governance.

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

#### **XII. OTHER SENIOR OFFICER**

##### **A. Finance Officer**

The Finance Officer reports directly to the President/CEO/OIC of the company. He/she will assist Senior Management on matters relating to accounting and budget management as well as internal and external reporting requirements. He/she will have the following duties:

1. Manages the company expenses and financial resources through budgeting and market forecasting.



2. Monitors the investments in trust funds with the company's Trustee Bank.
3. Handles the financial reporting requirements to management and regulatory bodies.
4. Monitors company bank balances and ensures funding of disbursement bank accounts.
5. Oversees the outsourced services related to accounting.
6. Plans, organizes, directs, controls, and evaluates the operation of Finance Department.

#### **B. Compliance Officer**

To ensure adherence to corporate principles and best practices, the Chairman of the Board shall designate a Compliance Officer who shall hold the position with the rank of at least a Vice President or an equivalent position with adequate authority in the corporation. The Compliance Officer should not be a member of the Board of Directors and should annually attend a training on corporate governance.<sup>19</sup> The Compliance Officer shall have the following duties<sup>20</sup>:

1. Monitors compliance with the provisions and requirements of this Manual and the Revised Code of Corporate Governance;
2. Appear before the Insurance Commission upon summon on similar matters that may need to be clarified by the same;
3. Determines violation/s of the Manual and recommend penalty for violation thereof for further review and approval of the Board;
4. Identifies, monitors and controls compliance risks;
5. Collaborates with other units to properly address compliance issues, which may be subject to investigation;
6. Identifies possible areas of compliance issues and works towards the resolution of same.

The appointment of the Compliance Officer shall be immediately disclosed to IC. All correspondence relative to his function as such shall be addressed to said officer.

### **XIII. GOVERNANCE POLICY ON CONFLICT OF INTEREST**

The personal interest of directors and officers should never prevail over the interest of the Company. They are required to be loyal to the organization so much so that they may not directly or indirectly derive any personal profit or advantage by reason of their position in AP.

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<sup>19</sup> IC Circular (CL) No. 2020-71 Revised Code of Corporate Governance for Insurance Commission Regulated Companies, Recommendation 1.6.

<sup>20</sup> Including such other duties and responsibilities as may be provided in the IC Code of Corporate Governance for Insurance Commission Regulated Companies.



They must promote the common interest of all shareholders and AP without regard to their own personal and selfish interest.

- A. A conflict of interest exists when a director or an officer of AP:
1. Supplies or is attempting to supply goods or services to AP;
  2. Supplies or is attempting to supply goods, services or information to an entity in competition with AP;
  3. By virtue of his office, acquires or is attempting to acquire for himself a business opportunity which should belong to AP;
  4. Is offered or receives consideration for delivering AP's business to a third party;
  5. Is engaged or is attempting to engage in a business or activity which competes with or works contrary to the best interest of AP.
- B. If an actual or potential conflict of interest should arise on the part of directors, it should be fully disclosed, and the concerned director should not participate in the decision making. A director who has a continuing conflict of interest of a material nature should either resign or, if the Board deems appropriate, be removed from the Board.
1. A contract of AP with one or more of its directors or officers is voidable, at the option of AP, unless the following conditions are present:
    - a. The presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
    - b. The vote of such director was not necessary for the approval of the contract;
    - c. The contract is fair and reasonable under the circumstances;
    - d. In case of an officer, the contract has been previously approved by the Board of Directors.
  2. Where any of the first two conditions set forth in the preceding paragraph is absent, in the case of a contract with a director, such contract may be ratified by the vote of stockholders representing two-thirds (2/3) of the outstanding capital stock in a meeting called for that purpose; provided that full disclosure of the adverse interest of the director involved is made at such meeting; and provided further that the contract is fair and reasonable under the circumstances.
- C. Where a director, by virtue of his office, acquires for himself a business opportunity which should belong to AP, thereby obtaining profits to the prejudice of AP, the director must account to the latter for all such profits by refunding the same, unless his act has been ratified by a vote of the stockholders owning or representing at least two-thirds (2/3) of the





outstanding capital stock. This provision shall be applicable notwithstanding the fact that the director risked his own funds in the venture.

- D. The foregoing is without prejudice to AP's existing Rules or Code of Conduct and Ethics for its officers, employees, and staff.
- E. A Director or Officer shall not disclose, reveal, or share, by whatever means or method, to any person or entity, any information especially all vital and/or confidential information it has learned, obtained, or acquired in any manner by reason of, and in the course of performing the whole or any portion of his obligation and duties as Director or Officer of AP without the prior written consent of the Company.

#### **XIV. COMMUNICATION AND INFORMATION**

##### **Management's Responsibilities for Information**

- A. Management is primarily responsible to the Board for financial reporting and control, and to the extent, shall:
  - 1. Present a balanced and understandable assessment of AP'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;
  - 2. Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
  - 3. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
  - 4. Maintain a sound system of internal control to safeguard stakeholders' investments and the AP's assets;
  - 5. Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information. Effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts;
  - 6. Require the Chief Audit Executive to render to the Audit Committee an annual report on the internal audit division's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the audit Committee of the Board.
  - 7. 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.



- B. Management shall be primarily responsible for the adequate flow of information to the Board. This information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure statements and documents, budgets, forecasts and monthly internal financial statements. Any variance between projections and actual results should also be disclosed and explained by Management to the Board.

## **XV. REPORTS AND DISCLOSURES**

The Board shall commit at all times to fully disclose all material information about the company for the benefit of the stockholder.

## **XVI. STOCKHOLDER'S RIGHT AND PROTECTION OF MINORITY STOCKHOLDERS INTERESTS**

### **A. Shareholders' Rights**

The Board shall be committed to respect the following rights of stockholders:

#### **1. Voting Rights**

- a. Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
- b. 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 AP.

#### **2. Pre-emptive Rights**

All stockholders shall 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 AP. The Articles of Incorporation shall lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.

#### **3. 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 with an annual report, including financial statements.



#### **4. 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 AP's shares, dealings with the AP, relationships among directors and key officers, and the aggregate compensation of directors and officers.

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 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 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 provided always that this right of access is conditioned upon the requesting shareholder's having a legitimate purpose for such access.

#### **5. Right to Dividends**

Stockholders have the right to receive dividends subject to the discretion of the Board. However, the Commission may direct AP 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 AP 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 AP, such as when there is a need for a special reserve for probable contingencies.

#### **6. Appraisal Right**

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

- a. 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;
- 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.



## **B. Alternative Dispute Mechanism**

It is the policy of the company to resolve disputes or differences with stockholders, regulatory authorities and other third parties, if and when such disputes or differences arise, through mutual consultation or negotiation, mediation or arbitration. If the agreement between the AP and third parties has an arbitration clause, arbitration is the ADR system being adopted. If none, the company initiates conciliation-earnest effort to arrive at amicable settlement. If everything fails, the dispute progresses into court litigation, the company strictly adheres to and complies with Supreme Court A.M. No. 11-1-6-SC-PHILJA dated January 11, 2011 [Consolidated and Revised Guidelines to Implement the Expanded Coverage of Court-Annexed Mediation (CAM) and Judicial Dispute Resolution (JDR)]. Relative to regulatory authorities, the company adopts and complies with the alternative modes of dispute resolution they are using or promoting such as, but not limited to, mediation, conciliation and arbitration, in compliance with Republic Act No. 9285 (Alternative Dispute Resolution Act of 2004).

## **XVII. DUTY OF DIRECTORS TO PROMOTE STOCKHOLDERS RIGHTS**

It shall be the duty of the directors to promote stockholder rights, remove impediments to the exercise of stockholders' rights and provide effective redress for violation of their rights. They shall encourage the exercise of stockholders' voting rights 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 stockholders participating in meetings and/or voting in person.

## **XVIII. COMPLIANCE SYSTEM**

The Compliance System of AP. is basically a two-tiered system. The primary level is achieved through self-regulation within each work unit, department, division, group by consciously abiding by provisions of this Manual, adhering to stated company policies, and to AP's code of conduct.

The secondary level is conducted through the audit function which is performed by both the Internal Audit Division and the Compliance Officer as well as the external auditors appointed by the Board. The compliance review by internal auditors and external auditors, in turn, are reviewed and evaluated by the Audit Committee of the Board of Directors.

## **XIX. EXTERNAL AUDIT**

- A. 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.



B. The External Auditor shall -

1. Perform fair audits independently from AP, its management and controlling shareholders, so that shareholders and other users may maintain confidence in AP's accounting information;
2. Check whether any fact conflicts with the audit results in the information disclosed regularly with the audited financial statements, and demand correction, if necessary;
3. Attend the annual stockholders meeting and answer any questions on audit reports and on themselves, their work and their remuneration;
4. Perform such other functions as may be approved by the Board in its engagement of the auditor, provided, however, that non-audit work shall not be in conflict with the functions of the auditor as external auditor.

C. The External Auditor shall be rotated every five (5) years or earlier, or the handling partner shall be changed.

D. The reasons for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in AP'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 reports.

E. If an external auditor believes that the statements made in an annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall also present his views in said reports.

## **XX.COMMUNICATION OF THIS MANUAL**

This Manual shall be available for inspection by any stockholder of AP at its principal office during reasonable hours on a business day.

## **XXI. PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL**

Non-Compliance with this manual shall be subject to penalty or appropriate action as maybe determined by the Board of Directors.



# AYALA PLANS, INC.

A subsidiary of the Bank of the Philippine Islands

Pursuant to the requirement of the Insurance Commission, this amended Manual of Corporate Governance is signed on behalf of the registrant by the undersigned, thereunto duly authorized.

## SIGNATURES

A handwritten signature in black ink, appearing to read "M. Lukban", written in a cursive style.

MARIA CONSUELO A. LUKBAN

Chairman

A handwritten signature in black ink, appearing to read "Estrella", written in a cursive style.

ELMINA R. ESTRELLA

Compliance Officer