

SM Prime Holdings Inc.

Compliance to Leading Practices on Corporate Governance

Section 1 – Succession Planning

The Company follows an established framework in succession planning, which involves the linking of strategic goals and workforce requirements, the analysis of continuity issues and gaps in the long-term, the identification of talent pools, and the development, implementation and monitoring of succession strategies based on the considerations identified.

The Board, through the Corporate Governance Committee, is responsible for assessing the leadership needs of the company to ensure the selection of qualified leaders that are diverse and a good fit for the organization's mission and goals, and have the necessary skills for the organization. In evaluating candidates, a high level of competency, experience and stature are used as standards. Furthermore, the maturity of character and ability to effectively assimilate into the SM culture are critical.

The Corporate Governance Committee uses a Board Matrix to ensure that the Board has an appropriate mix of directors to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction. The Company's Board Matrix sets out the mix of attributes, skills, competencies and experience, affiliations the Board currently has and is looking for to complement its existing composition. Its structure reflects the areas relevant to the Company's strategic objectives, as well as other areas of general relevance to the composition of the Board.

Further, aligned with SM Investments Corporation retirement policy, the Company adopts 80 years old as retirement age for its directors, key officers and all of its employees.

The Company is also a participant in the SM Corporate and Management Companies Employer Retirement Plan. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, if any, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit pension costs comprise the following:

- Service cost
- Net interest on the net defined benefit obligation or asset
- Remeasurements of net defined benefit obligation or asset

A testament of SM Prime's succession framework is its President, Mr. Jeffrey Lim. Mr. Lim joined the Company in 1994 and was groomed to become a member of the Board and was appointed as President in October 2016. On another note, SM Prime's non-executive director, Mr. Jorge T. Mendiola started his career with The SM Store as a Special Assistant to the Senior Branch Manager in 1989 and rose to become the President in 2011.

Section 2 – Remuneration Matters

- 1) Remuneration Process - Process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Process	CEO	Top 4 Highest Paid Management Officers
(1) Fixed remuneration	Performance-based	Performance-based
(2) Variable remuneration	Not applicable	Not applicable
(3) Per diem allowance	Php 10,000 per Board meeting or Board Committee meeting attended	Not applicable
(4) Bonus	Performance-based	Performance-based
(5) Stock Options and other financial instruments	Not applicable	Not applicable
(6) Others (specify)	Not applicable	Not applicable

- 2) Remuneration Policy and Structure for Executive and Non-Executive Directors - Company's policy on remuneration and the structure of its compensation package

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	The Corporate Governance Committee determines the amount of remuneration which shall be in a level sufficient to attract directors, executives and other key senior personnel needed to run the Company successfully.	Executive compensation is composed of salaries, bonuses and, plus fixed per diem for every board meeting attended.	Benchmarks such as industry peer group, compensation studies, and level of responsibilities are used as basis.
Non-Executive Directors		Fixed per diem for every board meeting attended and allowances commensurate to the responsibilities given.	

- 3) Stockholders' approval on total remuneration of board of directors for the last three (3) years

Remuneration Scheme	Date of Stockholders' Approval
Yes. The Company complies with Sec. 30 of the Corporation Code of the Philippines, which states that compensation other than per diems may be granted to directors by the vote of the stockholders representing at least a majority of the outstanding capital stock.	25 April 2017
	12 April 2016
	14 April 2015
Aside from per diems, no other forms of compensation are given to the Company's directors with respect to the services they render as directors.	

During the Annual Stockholders' Meeting, the stockholders ratify all acts of the Board and Management, including those pertaining to Board remuneration.	
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4) Aggregate Remuneration

Remuneration Item	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
(a) Fixed Remuneration	Total remuneration and bonus paid to Executive Director and four most highly compensated executive officers:		
(b) Variable Remuneration			
(c) Per diem Allowance			
(d) Bonuses			
(e) Stock Options and/or other financial instruments			
(f) Others (Specify)			
Total	There are no stock options and/or other financial instruments given to directors.		

Year	Salary	Bonus
2017	P112,000,000	P19,000,000

The total per diem allowance paid to directors in 2017 amounted to P900,000.

Other Benefits	Executive Directors	Non-Executive Director (other than independent directors)	Independent Directors
1) Advances	There are no advances, credit and car plan granted to directors. The directors (except independent directors) are covered with the company's pension, life insurance and hospitalization plans.		
2) Credit granted			
3) Pension Plan/s Contributions			
(d) Pension Plans, Obligations incurred			
(e) Life Insurance Premium			
(f) Hospitalization Plan			
(g) Car Plan			
(h) Others (Specify)			
Total			

4) Stock Rights, Options and Warrants

- (a) Board of Directors - Members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

The company does not grant stock rights, options or warrants over the company's shares.

Director's Name	Number of Direct Option/Rights / Warrants	Number of Indirect Option/Rights / Warrants	Number of Equivalent Shares	Total % from Capital Stock
None.				

(b) Amendments of Incentive Programs - Amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program.

There was no incentive program that was amended or discontinued.

Incentive Program	Amendments	Date of Stockholders' Approval
None.		

Section 3– Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension of Directors

Procedure	Process Adopted	Criteria
a. Selection/Appointment		
(i) Executive Directors	<p>The Revised Manual on Corporate Governance requires the conduct of the following process/procedures in the nomination and election of directors:</p> <ul style="list-style-type: none"> • The Corporate Secretary shall set a reasonable period for the submission of nominations of candidates for election to the Board of Directors. All nominations for directors submitted in writing to the Corporate Secretary within such nomination period shall be valid. A stockholder of record, including a minority stockholder, entitled to notice of, and to vote at, the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated as a director. • The Company may engage the services of professional search firms or use other external sources of candidates when searching for candidates to the Board of Directors. • The Corporate Governance Committee meets, pre-screens and checks the qualifications of, and deliberates on, all persons nominated to be elected to the Board of Directors from the pool of candidates submitted by the nominating stockholders. The Corporate Governance Committee shall prepare a Final List of Candidates after considering the qualifications and disqualifications set forth in the previous sections. Said list shall contain all the information about these nominees. Only nominees qualified by the Corporate Governance Committee and whose names appear on the Final List of Candidates shall be eligible for 	<p>Per the Company's Revised Manual on Corporate Governance each director shall possess all of the following qualifications:</p> <ul style="list-style-type: none"> • Ownership of at least one (1) share of stock of the Corporation; • At least twenty-one (21) years of age; • At least a college graduate or have sufficient experience in managing the business to substitute for such formal education; • Proven to possess integrity, probity and assiduousness; and • Proven to possess the appropriate level of skill and experience in line with the strategic plans and goals of the Corporation; • In addition to the qualifications required by relevant laws, additional qualifications which may be provided by the Board, such as practical understanding of the Corporation's business, previous business experience, or membership in good standing in relevant industry, business or professional organizations.
(ii) Non-Executive Directors	<p>The Revised Manual on Corporate Governance requires the conduct of the following process/procedures in the nomination and election of directors:</p> <ul style="list-style-type: none"> • The Corporate Secretary shall set a reasonable period for the submission of nominations of candidates for election to the Board of Directors. All nominations for directors submitted in writing to the Corporate Secretary within such nomination period shall be valid. A stockholder of record, including a minority stockholder, entitled to notice of, and to vote at, the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated as a director. • The Company may engage the services of professional search firms or use other external sources of candidates when searching for candidates to the Board of Directors. • The Corporate Governance Committee meets, pre-screens and checks the qualifications of, and deliberates on, all persons nominated to be elected to the Board of Directors from the pool of candidates submitted by the nominating stockholders. The Corporate Governance Committee shall prepare a Final List of Candidates after considering the qualifications and disqualifications set forth in the previous sections. Said list shall contain all the information about these nominees. Only nominees qualified by the Corporate Governance Committee and whose names appear on the Final List of Candidates shall be eligible for 	<p>In addition to the qualifications of directors, an individual nominated and elected as an independent director should meet the following requirements:</p> <ul style="list-style-type: none"> • He must be independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment; and • He is not an officer, consultant, adviser, or employee of the Company.
(iii) Independent Directors	<p>The Revised Manual on Corporate Governance requires the conduct of the following process/procedures in the nomination and election of directors:</p> <ul style="list-style-type: none"> • The Corporate Secretary shall set a reasonable period for the submission of nominations of candidates for election to the Board of Directors. All nominations for directors submitted in writing to the Corporate Secretary within such nomination period shall be valid. A stockholder of record, including a minority stockholder, entitled to notice of, and to vote at, the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated as a director. • The Company may engage the services of professional search firms or use other external sources of candidates when searching for candidates to the Board of Directors. • The Corporate Governance Committee meets, pre-screens and checks the qualifications of, and deliberates on, all persons nominated to be elected to the Board of Directors from the pool of candidates submitted by the nominating stockholders. The Corporate Governance Committee shall prepare a Final List of Candidates after considering the qualifications and disqualifications set forth in the previous sections. Said list shall contain all the information about these nominees. Only nominees qualified by the Corporate Governance Committee and whose names appear on the Final List of Candidates shall be eligible for 	<p>In addition to the qualifications of directors, an individual nominated and elected as an independent director should meet the following requirements:</p> <ul style="list-style-type: none"> • He must be independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment; and • He is not an officer, consultant, adviser, or employee of the Company.

Procedure	Process Adopted	Criteria
	<p>election as Independent Director. No other nomination shall be entertained after the Final List of Candidates shall have been prepared.</p> <ul style="list-style-type: none"> Based on the Final List of Candidates, directors are elected by shareholders individually. The vote required for the election of directors is majority of the outstanding capital stock. The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him, for as many persons as there are to be elected as Directors, or he may cumulate or give to one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. To preserve the integrity of the election process, the Corporation shall employ the services of an external party to validate the voting results. 	
b. Re-appointment		
(i) Executive Directors		
(ii) Non-Executive Directors		
(iii) Independent Directors		
c. Permanent Disqualification		
(i) Executive Directors		
(ii) Non-Executive Directors		
(iii) Independent		

Procedure	Process Adopted	Criteria
Directors	Corporate Governance and other relevant laws.	<p>b) Any person finally found by the Securities Exchange Commission (the "Commission) or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas;</p> <p>c) Any person judicially declared to be insolvent;</p> <p>d) Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violates or misconduct listed in the foregoing paragraphs; and</p> <p>e) Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.</p> <p>f) No person shall qualify or be eligible for nomination or election to the Board if he is engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged:</p> <p>i. If he is the owner (either of record or as beneficial owner) of 5% or more of any outstanding class of share of, any corporation (other than one in which the Corporation owns at least 20% of the capital stock) which is engaged in a business directly competitive to that of the Corporation or any of its subsidiaries or affiliates;</p> <p>ii. If he is an officer, manager, or</p>

Procedure	Process Adopted	Criteria
		<p>controlling person of, or the owner or any member of his immediate family is the owner (either of record or as beneficial owner) of 5% or more of any outstanding class of shares of any corporation (other than one in which the Corporation owns at least 20% of the capital stock) which is an adverse party in any suit, action or proceeding (of whatever nature, whether civil, criminal, administrative, or judicial) by or against the Corporation, which has been actually filed or threatened, imminent or probably, to be filed;</p> <p>iii. If he is determined by the Board, in the exercise of its judgment in good faith, to be the nominee, officer, trustee, adviser, or legal counsel, of any individual set forth in (i) or (ii) hereof.</p>
d. Temporary Disqualification		
(i) Executive Directors	<p>The Corporate Governance Committee assesses and evaluates all members of the Board of Directors based on the disqualification criteria set out in the Revised Manual on Corporate Governance.</p> <p>A temporary disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<p>The grounds for temporary disqualification are as follows:</p> <p>a) Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its implementing rules and regulations. This disqualification shall be in effect as long as his refusal persists;</p> <p>b) Absence or non-participation for whatever reason/s for more than 50% of all meetings, both regular and special, of the Board during his incumbency, or any twelve (12) month period during his incumbency, unless the absence is due to illness, death in the immediate family, or serious accident. This disqualification applies for purposes of the succeeding election;</p> <p>c) Dismissal/termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity; and</p>
(ii) Non-Executive Directors		
(iii) Independent Directors		

Procedure	Process Adopted	Criteria
		d) Conviction that has not yet become final referred to in the grounds for disqualification of directors.
e. Removal		
(i) Executive Directors	The Company applies the same process and criteria used in the permanent disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their removal.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
f. Re-instatement		
(i) Executive Directors	The Company applies the same process and criteria used in the selection/appointment of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their re-instatement.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
g. Suspension		
(i) Executive Directors	The Company applies the same process and criteria used in the temporary disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their suspension.	
(ii) Non-Executive Directors		
(iii) Independent Directors		

Section 4 – External Auditor

Fee:

Name of auditor	Audit Fee	Non-audit Fee
Sycip, Gorres, Velayo & Co.	Php 9,000,000	Nil

Certificate:



Section 5 – 2017 Results of Board, Board Committee, Chairman, Individual Directors, and Key Officers' Evaluation

During the Feb 2018 Board meeting, the Board, through the Corporate Governance Committee, facilitated the annual self-assessment of the performance of the Board as a whole, its Committees, the Board Chairman and individual directors.

Self-evaluation forms were handed to the directors. The evaluation covered the following criterias:

1. Individual characteristics as a Board member – Specifies the qualifications and abilities a director shall possess; this includes among others, strategic vision, time availability, commitment, intellectual independence, ability to ask tough questions, contribution to the group, and continuous self-education and development
2. Collective Board Committee rating – Includes among others, balanced participation of directors, ability to access information necessary to perform its functions, and fulfillment of its duties and responsibilities as embodied in their respective Committee charter
3. Chairperson's role – Specifies the qualities and responsibilities of the Board and Committee Chairman

Further, performance assessment was also conducted for SM Prime's Management Team composed of the Company President, Chief Compliance Officer (CCO), Chief Risk Officer (CRO) and Chief Audit Executive (CAE).

The Chairman of the Corporate Governance Committee, Board Risk Oversight Committee and Audit Committee evaluated the Company's CCO, CRO and CAE, respectively. On the other hand, the Board, through the Chairman of the Executive Committee, conducted an assessment for the performance of the Company President.

All evaluations were based on the duties and responsibilities of each concerned key officer as listed in the Revised Manual on Corporate Governance.

Based on the results of the evaluation, the Board, its Committees, the Board Chairman, the Individual Directors and the Company's Key Officers excel in the performance of their duties and responsibilities.

Section 7 – Risk Management System

1) Disclose the following:

(a) Overall risk management philosophy of the company;

SMPHI is committed to protect and preserve its ability to achieve its vision and mission by ensuring that its assets, both tangible and intangible, are protected against damage and loss. As such, it has implemented a program of risk management through the identification, analysis and control of risks, which can most impact on the Company's ability to pursue its approved strategy.

SMPHI recognizes that risk taking is a necessary part of conducting business. In the context of realizing SMPHI's strategic growth objectives, failure is an accepted part of risk taking, as long as risks have been properly assessed and managed.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The Board of Directors, through the Risk Oversight Committee, reviewed the Company's risk management system and found the same to be effective and adequate.

(c) Period covered by the review;

Year 2017

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

The risk management system is reviewed on an annual basis. Effectiveness of the system is evaluated based on number of risks identified, risks mitigated and risks monitored.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

SM Prime is covered by SM Group's Risk Management Policy set out in the next section.

Risk Exposure	Risk Management Policy	Objective
Strategic Risk	SM Prime shall ensure sustainable achievement of strategic objectives.	To assure long-term success and enhance shareholder's value
Safety and Security Risk	SM Prime shall prioritize safety and security in all its properties.	To protect the health, safety and welfare of its employees and the people it serves.
Property Damage and Business Disruption Risks	SM Prime shall ensure the disaster resiliency of its assets.	To protect its property, assets and other resources.

Risk Exposure	Risk Management Policy	Objective
Information Security Risks	SM Prime shall ensure the confidentiality, integrity and availability of its information systems and infrastructure.	To protect its property, assets and other resources.
Process Risks	SM Prime will seek to reduce or control risks that affect the quality of service delivery or delivery of its priorities.	To maintain the quality of its services, which affect its reputation and good standing in the wider community.
Financial Risks	SM Prime will seek to reduce or control risks that would have significant financial consequences or affect shareholder confidence.	To protect its ability and capability to deliver sustainable growth and increase shareholder value.
Regulatory Compliance Risk	SM Prime shall comply with all applicable laws in the countries, districts, and communities in which it operates.	To comply with applicable laws, rules and regulations.

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
<p>The following mother risk management policy applies to all the subsidiaries of the Group:</p> <p>(i) Establish a culture of disclosing, evaluating and managing risks, from the Board and throughout the organization toward achieving goals and objectives.</p> <p>(ii) To protect and preserve:</p> <ul style="list-style-type: none"> • our employees' and clients' safety and welfare • the value and condition of properties and assets • our local and global reputation <p>(iii) To align risk appetite and strategy.</p> <p>The Enterprise Risk Management Committee (ERM) has been set up to execute the risk mitigation strategies and programs that have been approved at the Risk Oversight Committee of the Board. The ERM has been established in each of the subsidiaries including the holding company. The Risk Management Department at the holding company coordinates the launch and roll-out program of the ERM and in standardizing the program across companies.</p>		

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders

Listed are the generally accepted risk to minority shareholders of family-owned corporations in the Philippines:

- Majority shareholders may dominate major Company decisions
- Lack of transparency on the actions and decisions of majority shareholders
- Abusive and inequitable conduct on the part of majority shareholders
- Rights of minority shareholders may not be upheld and protected
- Conflict of interest situations may arise on some transactions

The Company adopts certain measures that ensure that the aforementioned risks are mitigated, such as cumulative voting. In addition, minority shareholders have the right to propose holding of a meeting, propose items in the agenda of the meeting, access information for which the Management is accountable for and ratify Board approved material RPTs. Moreover, a director shall not be removed without cause if it will deny minority shareholders representation in the Board.

Further, the Company has a Conflict of Interest Policy where all directors and employees are prohibited from engaging in transactions that result in conflicts of interest and are mandated to promptly disclose actual or perceived conflicts of interest, such as acceptance of gifts, interest in businesses of competitors, participation in other organization or activities and close personal relationships in the Company or its affiliates and subsidiaries. Conflicted directors are required to inhibit themselves from participating in board meetings and are specifically identified in the Company's Definitive Information Statement submitted to the SEC.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Safety and Security	Annual audit by third parties (one for safety and another for security)	The Customer Relations Service Department is responsible for maintaining the safety and security of all SM Malls through implementation of access control system. Department personnel are also trained to respond to safety and security incidents.
Property Damage and Business Disruption	Annual review of insurance claims, business impact assessment	Business Continuity Management System, disaster-resilient buildings, data back-up procedures, implementation of redundancy/reserves for critical resources
Information Security	Vulnerability assessment and penetration testing, incident monitoring	The Information Security Department monitors compliance with Information Security Policy and incidents of information security breaches.

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Process Risks	Business process reviews	The Business Process Management Department reviews existing processes and initiates the creation of tools that enhance efficiency.
Financial Risks	Regular monitoring of interest and forex rates, financial ratios and aging of accounts receivables.	Interest rate risks: Use of both fixed and floating rate debts; interest rate swaps; NDFs, refinancing or prepayment of high-interest loans Foreign currency risk: Apply zero foreign exchange exposure, cross-currency swaps or foreign currency call options, as needed Credit Risk: Prudent tenant screening, AR Management, Capital Management Risk: Maintain approved debt to equity ratio; Use of combination of internally generated funds and debt capital and equity market issues
Regulatory Compliance Risk	Compliance monitoring and reporting	Operations Planning and Control is responsible for monitoring compliance with mall permits and licenses, environmental, and other external regulations.

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
The holding company provides down-line policy support and coordination to the subsidiaries and affiliates with regard to Corporate Governance, Risk Management, Finance, Internal Audit, Investor Relations, Human Resources, Compliance, Legal matters in the previous item.		

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Audit Committee	<p>The following functionally reports to the Audit Committee:</p> <ul style="list-style-type: none"> • Chief Audit Executive • Compliance Officer 	<p>The Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews the Company's internal control systems, its audit plans and auditing processes.</p>
Risk Oversight Committee	<p>The following functionally reports to the ROC:</p> <ul style="list-style-type: none"> • Chief Risk Officer 	<p>The Committee assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks.</p>
Executive Committee	<p>Has all the power and authority of the Board in the governance, management and direction of the business and affairs of the Company.</p>	<p>The Committee provides oversight in the assessment of impact of risks on the strategic and long-term goals of the Company.</p>
Management Committee	<p>Has overall management control over departments and instrumentalities of the Company.</p>	<p>The Committee ensures the achievement of goals and strategies set by the Board.</p>
Whistleblowing Committee	<p>A management committee that handles whistleblower cases.</p>	<p>Upon receipt of an Incident Report, the Committee conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. A compilation of concluded reports is periodically presented to the Audit and Risk Oversight Committees.</p>
Risk Oversight Management Committee	<p>Composed of all the Risk Owners (Department Heads) and chaired by the Chief Risk Officer.</p>	<p>Updates the Risk Registers and monitors execution of action plans to mitigate exposures.</p>

Section 8 – Managing Impact on the Community and the Environment

Before implementation, all SM Prime projects secure permits and comply with other requirements and laws of the different government agencies including the Department of Environment and Natural Resources. For some municipalities, a Multi-Partite Monitoring Team is also required, which is comprised of mall administration representatives, members of the local government, the community, and other stakeholders.

While majority of our projects are located in highly urbanized areas, some expansion projects reach out with their own developing initiatives to nearby towns and communities. Prevention and mitigation measures implemented in processes of operations with significant potential or actual negative impacts on local communities include engaging local businesses to become tenants of the mall and preference for hiring locally.

The company is committed to providing quality real estate and services. All business partners (suppliers, contractors, service providers, etc.) are screened based on a criteria that emphasizes quality of service, cost efficiency, moral standing and compliance with related laws. SM Prime prefers to engage the services of local suppliers for each mall in both the Philippines and China.

SM Prime is an apolitical and nonpartisan organization. Partnerships with government agencies and associations are in a representative capacity for the private sector in endeavors related to stakeholder and industry consultation, capacity-building, and the promotion of shared advocacies.

SM Prime also supports the government's information dissemination efforts by providing maximum exposure as a venue for caravans or mobile exhibits for government projects and services.

SM Prime takes it upon itself to subject its operations to regular assessments for constant improvement of product and services. These include regular security audits, solid and hazardous waste management audits, drills and trainings for the emergency response teams, as well as continuous dialogue and review of the company's business continuity and risk management plan.

The company aims to go beyond the standards provided by government ordinances to secure the longevity of our operations and with great consideration of the community at large.

Section 9 – Regular Meeting/s with the Company’s External Auditor

In compliance with the Company’s Revised Manual on Corporate Governance, SM Prime’s non-executive directors have met with SGV & Co., the Company’s External Auditor, Chief Audit Executive (CAE), Chief Compliance Officer (CCO) and Chief Risk Officer (CRO), to ensure that proper checks and balances are in place within the corporation.

Mr. Jose L. Cuisia, Jr., being the Board’s lead independent director, chaired the meeting.

The following areas were discussed during the meeting with the Company’s Key Officers:

- Internal Audit – It was confirmed by the Company’s CAE, Mr. Christopher S. Bautista, there is no material fraud which would be of concern to the Company and that there are no pending audit matters on the Company’s land acquisitions.
- Compliance and Risk – It was advised that the Company shall continue to strengthen its internal controls and to reinforce compliance in all its business operations. It was also reiterated that the Management should proactively endorse to the RPT Committee of any transaction covered and for its review and approval.

After discussing above items, the Company’s Key Officers stepped out from the meeting to give way to the NEDs’ separate meeting with SGV & Co. During their separate meeting, the following were discussed:

- Confirmation from External Auditor whether its team was provided sufficient access to records and information for their audit of the financial statements the Company; and
- Issues which the audit team would like to bring to the attention of the non-executive directors of the Company

Section 10 – Notification Prior Accepting Other Directorship/s

In compliance with the Revised Manual on Corporate Governance, all directors shall exercise due discretion in accepting and holding directorships outside of the Corporation. As such, directors are required to notify the Board through the Corporate Secretary immediately upon receipt of invitation or nomination from a publicly listed company. Alternatively, the concerned director can notify the Board in the next scheduled board meeting if the time permits.

For Year 2017, the Company's Independent Director, Mr. Joselito H. Sibayan, was elected as Director and Treasurer of A Brown Company, Inc. Mr. Sibayan was able to notify Atty. Serrano, the Company Corporate Secretary, regarding his nomination for the aforementioned positions. (Refer to scanned signed document below)

January 17, 2017

ATTY. ELMER B. SERRANO
Corporate Secretary
SM Prime Holdings, Inc.

Re: Notification of Nomination as Director of A Brown Company, Inc.

Dear Mr. Serrano,

In compliance with SM Prime's Revised Manual on Corporate Governance, I am writing to notify the Board that I was recommended by A Brown Company, Inc.'s Nomination Committee to be the Company's Director and Treasurer.

I would be glad to address the Board' queries or concerns in relation to the foregoing, should there be any.

For your guidance, A Brown's next scheduled Board meeting will be on March 28, 2017.

Sincerely,


JOSELITO H. SIBAYAN
Independent Director

Section 11 – Board Matters

The Board ensures that it exercises due diligence and care, makes business judgment in good faith, and acts on a fully informed basis and in the best interest of the Company and all its stakeholders.

Through the regular Board and Board Committee meetings, the Board is able to foster the long-term success of the Corporation, and sustain its competitiveness and profitability in a manner consistent with its corporate objective and the best interests of its stockholders and other stakeholders.

Board and Board Committee meetings cover among others, the following topics:

- Approval of audited financial statements
- Approval of group-wide / company-wide policies, manual
- Constitution of committees
- Approval of Board & Board Committee charters
- Quarterly Internal Audit and Risk Management Updates
- Corporate Governance Updates (i.e., corporate governance circulars and rulings, compliance with corporate governance requirements, corporate governance initiatives, etc.)
- Appointment of directors, key officers, authorized signatories/representatives
- Approval of resolutions (i.e., service agreements, issuance of bonds, lease agreements, land acquisitions, etc.)
- Approval of declaration of cash dividends
- Discussion of results of mall operations
- Cascade of Board meeting schedule
- Annual Board Evaluation results
- Annual review of Related Party Transactions Policy

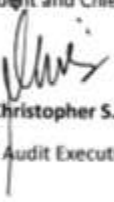
Section 12 – CEO and CAE Attestation

As disclosed in below signed document, the Company's Chief Executive Officer and Chief Audit Executive, attest SM Prime's sound and effective internal audit, control and compliance system.

TO : Corporate Governance / Compliance Department
DATE : May 9, 2018
FROM : Mr. Jeffrey C. Lim/ President and Chief Executive Officer
Mr. Christopher S. Bautista/Chief Audit Executive
SUBJECT : 2017 Annual Confirmation of Internal Audit/Control Adequacy

"In accordance with SM Prime Holdings Inc.'s corporate governance and compliance related policies and programs, prevailing best practices in corporate governance, and on the basis of the procedures performed in accordance with the annual internal audit plan, which was reviewed and approved by the Audit Committee, we attest to the overall adequacy and effectivity of the internal audit, internal control and compliance systems of the Company, taking into consideration the Company's size, risk profile and complexity of operations."


Mr. Jeffrey C. Lim
President and Chief Executive Officer


Mr. Christopher S. Bautista
Chief Audit Executive

May 9, 2018