

**SECURITIES AND EXCHANGE COMMISSION**  
**SEC FORM – ACGR**  
**ANNUAL CORPORATE GOVERNANCE REPORT**  
**GENERAL INSTRUCTIONS**

**(A) Use of Form ACGR**

This SEC Form shall be used to meet the requirements of the Revised Code of Corporate Governance.

**(B) Preparation of Report**

These general instructions are not to be filed with the report. The instructions to the various captions of the form shall not be omitted from the report as filed. The report shall contain the numbers and captions of all items. If any item is inapplicable or the answer thereto is in the *negative*, an appropriate statement to that effect shall be made. Provide an explanation on why the item does not apply to the company or on how the company's practice differs from the Code.

**(C) Signature and Filing of the Report**

- A. Three (3) complete set of the report shall be filed with the Main Office of the Commission.
- B. At least one complete copy of the report filed with the Commission shall be **manually** signed.
- C. All reports shall comply with the full disclosure requirements of the Securities Regulation Code.
- D. This report is required to be filed annually together with the company's annual report.


**(D) Filing an Amendment**

Any material change in the facts set forth in the report occurring within the year shall be reported through SEC Form 17-C. The cover page for the SEC Form 17-C shall indicate "Amendment to the ACGR".

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM – ACGR**

**ANNUAL CORPORATE GOVERNANCE REPORT**

1. Report is Filed for the Year **2012**
2. Exact Name of Registrant as Specified in its Charter **Far Eastern University**
3. **Nicanor Reyes Sr. St. Sampaloc, Manila** **1008**  
Address of Principal Office Postal Code
4. SEC Identification Number **PW - 538**
5.  (SEC Use Only)  
Industry Classification Code
6. BIR Tax Identification Number **000 - 225 - 271**
7. **(02) 735-5621**  
Issuer's Telephone number, including area code
8. ....  
Former name or former address, if changed from the last report

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## A. BOARD MATTERS

### 1) Board of Directors

|   |   |
|---|---|
| Number of Directors per Articles of Incorporation | 9 |
|---|---|

|   |   |
|---|---|
| Actual number of Directors for the year | 9 |
|---|---|

#### (a) Composition of the Board

Complete the table with information on the Board of Directors:

| Director's Name       | Type<br>[Executive<br>(ED), Non-<br>Executive<br>(NED) or<br>Independent<br>Director (ID)] | If nominee,<br>identify the<br>principal | Nominator in the<br>last election (if ID,<br>state the<br>relationship with<br>the nominator) | Date first<br>elected | Date last<br>elected (if<br>ID, state the<br>number of<br>years served<br>as ID) <sup>1</sup> | Elected<br>when<br>(Annual<br>/Special<br>Meeting) | No. of<br>years<br>served<br>as<br>director |
|-----------------------|--|--|---|-----------------------|---|--|---|
| Lourdes R. Montinola  | ED   | Dr. E. Melchor                           | -   | 06/1989               | 08/2012   | Annual   | 24  |
| Aurelio R. Montinola  | NED  | Dr. E. Melchor                           | -   | 06/1989               | 08/2012   | Annual   | 24  |
| Michael M. Alba       | ED   | Dr. E. Melchor                           | -   | 10/2012               | 10/2012   | Special  | 1   |
| Angelina P. Jose      | ED   | Dr. E. Melchor                           | -   | 06/1990               | 08/2012   | Annual   | 22  |
| Paulino Y. Tan        | NED  | Dr. E. Melchor                           | -   | 06/1991               | 08/2012   | Annual   | 21  |
| Gianna R. Montinola   | NED  | Dr. E. Melchor                           | -   | 06/1996               | 08/2012   | Annual   | 16  |
| Sherisa P. Nuesa      | ID   | Dr. E. Melchor                           | No Relationship   | 08/2010               | 08/2012   | Annual   | 2   |
| Edilberto C. De Jesus | ID   | Dr. E. Melchor                           | -do-  | 08/2012               | 08/2012   | Annual   | 1   |
| Robert F. Kuan        | ID   | Dr. E. Melchor                           | -do-  | 09/2004               | 08/2012   | Annual   | 8   |

- (b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

FEU firmly believes that good corporate governance is necessary to achieve its corporate goals. The Board of Trustees as the governing body of the corporation, has adopted a management style of transparency and participative leadership that is open to ideas but employs only sound business practices to achieve its corporate objectives.

#### BOARD RESPONSIBILITIES

It is the Board's responsibility to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and the public it serves, especially as an educational institution.

#### DISCLOSURE AND TRANSPARENCY

The essence of corporate governance is transparency. The more the transparent the internal workings of the corporation are, the more difficult it will be for Management and dominant stockholders to mismanage the corporation or misappropriate its assets. It is therefore essential that all material information about the corporation which could adversely affect its viability or the interests of the stockholders should be publicly and timely disclosed. Such information should include, among others, earning results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management. All such information shall be disclosed through the appropriate exchange mechanisms and submissions to the Commission.

#### STOCKHOLDER'S RIGHTS AND PROTECTION OF MINORITY STOCKHOLDER'S INTERESTS

The Board shall respect the rights of the stockholders as provided for in the Corporation Code, namely:

- Right to vote on all matters that require their consent or approval;
- Pre-emptive right to all stock issuances of the corporation;

<sup>1</sup> Reckoned from the election immediately following January 2, 2012.

- c. Right to inspect corporate books and records;
- d. Right to information;
- e. Right to dividends; and
- f. Appraisal right.

The Board shall be transparent and fair in the conduct of the annual and special stockholders' meeting of the corporation and shall encourage stockholders to personally attend such meetings.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

The Board shall give the minority stockholders the right to propose the holding of meetings and the items for discussion that relate directly to the business of the corporation.

(c) How often does the Board review and approve the vision and mission? As often as necessary.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group<sup>2</sup>

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

| Director's Name          | Corporate Name of the Group Company  | Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman. |
|--------------------------|--|--|
| Lourdes R. Montinola     | FERN Realty Corporation<br>Far Eastern College - Silang  | ED (Chairman)<br>NED (Chairman)  |
| Aurelio R. Montinola III | East Asia Computer Center Inc.   | NED  |
| Michael M. Alba          | Far Eastern College - Silang   | ED (President)   |
| Angelina P. Jose         | FERN Realty Corporation<br>Far Eastern College - Silang  | NED<br>NED (Secretary)   |
| Paulino Y. Tan           | FERN Realty Corporation<br>Far Eastern College – Silang<br>East Asia Computer Center Inc.  | NED<br>NED<br>NED (Chairman)   |
| Gianna R. Montinola      | FERN Realty Corporation<br>East Asia Computer Center Inc.<br>Far Eastern College – Silang<br>Juliana Management Co., Inc.<br>ICF – CCE, Inc. | NED (Corporate Secretary)<br>NED (Secretary)<br>NED<br>NED (Secretary)<br>NED                            |
| Sherisa P. Nuesa         | FERN Realty Corporation  | NED  |
| Robert F. Kuan           | Far Eastern College - Silang   | ID   |

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

| Director's Name | Name of Listed Company    | Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman. |
|-----------------|---------------------------|--|
| Robert F. Kuan  | China Banking Corporation | Independent Director   |

<sup>2</sup> The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

| Director's Name          | Name of the Significant Shareholder                      | Description of the relationship |
|--------------------------|--|---------------------------------|
| Lourdes R. Montinola     | Seyrel Investments and Realty Corporation<br>Desrey, Inc | President<br>President          |
| Aurelio R. Montinola III | Seyrel Investments and Realty Corporation<br>Desrey, Inc | Chairman<br>Chairman            |
| Gianna R. Montinola      | Seyrel Investments and Realty Corporation<br>Desrey, Inc | Vice President<br>Treasurer     |

The Chairperson, Dr. Lourdes R. Montinola, is the mother of Mr. Aurelio R. Montinola III and Atty. Gianna R. Montinola, all of whom are members of the Board of Trustees. Likewise, she is the mother of Mr. Juan Miguel R. Montinola, Chief Finance Officer.

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? Not quantitatively but qualitatively. In particular, is the limit of five board seats in other publicly listed companies imposed and observed? Not exactly but there is a specific guidelines for it. If yes, briefly describe other guidelines:

|                               | Guidelines  | Maximum Number of Directorships in other companies |
|-------------------------------|---|--|
| <b>Executive Director</b>     | <p>The Board has adopted a qualitative guideline on the number of directorships that its members can hold in stock and non-stock corporations. The optimum number takes into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities.</p> <p>The Chief Executive Officer ("CEO") and other executive trustees may be covered by a lower indicative limit for membership in other boards. A similar limit may apply to independent or non-executive trustees who, at the same time, serve as full-time executives in other corporations. In any case, the capacity of the trustees to diligently and efficiently perform their duties and responsibilities to the board they serve should not be compromised.</p> |  |
| <b>Non-Executive Director</b> |   |  |
| <b>CEO</b>                    |   |  |

(c) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

| Name of Director         | Number of Direct shares | Number of Indirect shares / Through (name of record owner)                        | % of Capital Stock |
|--------------------------|-------------------------|---|--------------------|
| Lourdes R. Montinola     | 6,635                   | 3,156,627/Seyrel Investement & Realty Corp., Desrey, Inc & Zare, Inc.             | 23.03687%          |
| Aurelio R. Montinola III | 261,510                 | 320,421/Seyrel Investement & Realty Corp., DERRC, Inc., Desrey, Inc. & Zare, Inc. | 4.23799%           |
| Michael M. Alba          | 1                       |   | 0.00001%           |
| Angelina P. Jose         | 442,028                 |   | 3.21912%           |
| Paulino Y. Tan           | 1                       |   | 0.00001%           |
| Gianna R. Montinola      | 60,374                  | 293,341/Seyrel Investement & Realty Corp., DERRC, Inc., Desrey, Inc. & Zare, Inc. | 2.57597%           |
| Sherisa P. Nuesa         | 1                       |   | 0.00001%           |
| Robert F. Kuan           | 1                       |   | 0.00001%           |
| Edilberto C. de Jesus    | 190                     |   | 0.00138%           |
| <b>TOTAL</b>             | <b>770,741</b>          | <b>3,770,389</b>  | <b>33.07137%</b>   |

2) Chairman and CEO

- (a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes ☐

No ☒

The President who serves as a COO is a member of the Board of Trustees and reports directly to the Board.

Identify the Chair and CEO:

|                                   |                          |
|-----------------------------------|--------------------------|
| Chairman of the Board             | Dr. Lourdes R. Montinola |
| Chief Executive Officer           | Dr. Lourdes R. Montinola |
| President/Chief Operating Officer | Dr. Michael M. Alba      |

- (b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

|                  | Chairman  | Chief Executive Officer  | President/COO  |
|------------------|---|--|--|
| Role             | The head of the Board of Trustees   | Chief Executive Officer  | Chief Operating Officer  |
| Accountabilities | <p>Preside at all meetings of the stockholders &amp; trustees.</p> <p>Ensure that the meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary;</p> <p>Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, COO, Management and the trustees; and</p> <p>Maintain qualitative and timely lines of communication and information between the Board and Management.</p> | <p>See to it that all resolutions of the Board are duly carried out.</p> <p>Exercise general supervision over the affairs of the corporation</p> <p>Direct and administer the financial and administrative affair of the university.</p> | <p>Direct &amp; administer the academic affairs of the university.</p> |
| Deliverables     | Attainment of corporate set goals.  | Execute and implement company policies set by the Board.   | Quality education  |



- 3) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?

Prospective candidates for key management positions are trained through seminars, close supervision and participative leadership in preparation for their assumption of greater responsibilities.

Depending on the situation and the need, the President and other top key management officers may also be hired from outside.

- 4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes. Each trustee is expected to be a member in good standing in relevant industry, business and professional organization.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes. Each Trustee is expected to have a practical knowledge of the business of the corporation.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

|                  | Executive   | Non-Executive   | Independent Director  |
|------------------|---|---|---|
| Role             | 1. Sets corporate goals, both short term & long term.                                   | 1. Sets corporate goals, both short term & long term.             | 1. Sets corporate goals, both short term & long term.             |
| Accountabilities | 2. Formulates policies for the attainment of corporate set goals.                       | 2. Formulates policies for the attainment of corporate set goals. | 2. Formulates policies for the attainment of corporate set goals. |
| Deliverables     | 3. Executes and implements policies & procedures for the attainment of corporate goals. |   | 3. Protects the interest of minority stockholders.                |

Provide the company's definition of "independence" and describe the company's compliance to the definition.

**Independence** – a state of being free from any business relationship which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out his responsibilities. To this effect, all Independent Directors are barred from entering into any transaction with the company or its affiliates that could impair their independence.

Does the company have a term limit of five consecutive years for independent directors? Yes, effective January 2, 2012. If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain. Not 4 years but 5 years as provided for by SEC circular #9, series of 2011.

- 5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

| Name                 | Position               | Date of Cessation | Reason                |
|----------------------|------------------------|-------------------|-----------------------|
| Renato L. Paras      | Non-Executive Director | May 6, 2012       | Death                 |
| Lydia B. Echauz      | President/COO          | August 25, 2012   | Compulsory Retirement |
| Antonio R. Montinola | Non-Executive Director | October 16, 2012  | Resignation           |

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

| Procedure                       | Process Adopted  | Criteria   |
|---------------------------------|--|--|
| <b>a. Selection/Appointment</b> |  |  |
| (i) Executive Directors         | <p><b>A.</b> The Nomination Committee with three (3) members, one of whom is an independent trustee, shall promulgate the guidelines or criteria to govern the conduct of the nomination. The same shall be properly disclosed in the company's information or proxy statement or such other reports required to be submitted to the Commission.</p> <p><b>B.</b> Nomination of independent trustees 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.</p> <p><b>C.</b> 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 trustee/s.</p> <p><b>D.</b> After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent</p> | <p>In addition to the qualifications for membership in Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications which include, among others, the following:</p> <ul style="list-style-type: none"> <li>• College education or equivalent academic degree;</li> <li>• Practical understanding of the business of the corporation;</li> <li>• Membership in good standing in relevant industry, business or professional organizations; and</li> <li>• Previous business experience.</li> </ul> |
| (ii) Non-Executive Directors    |  |  |
| (iii) Independent Directors     |  |  |

|                                      |  |   |
|--------------------------------------|--|---|
|                                      | <p>trustees, as required under Part IV (A) and (C) of Annex “C” of SRC Rule 12, which list shall be made available to the commission and to all stockholders through the filing and distribution of the Information Statement in accordance with SRC Rule 20, or in such other reports the company is required to submit to the Commission. The name of the person or group of persons who recommended the nomination of the independent trustee shall be identified in such report including any relationship with the nominee.</p> <p><b>E.</b> Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Trustee/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.</p> <p><b>F.</b> Election of Independent Trustee/s</p> |   |
| <b>b. Re-appointment</b>             |  |   |
| (i) Executive Directors              | Same as above  | Same as above   |
| (ii) Non-Executive Directors         |  |   |
| (iii) Independent Directors          |  |   |
| <b>c. Permanent Disqualification</b> |  |   |
| (i) Executive Directors              | Any Director shall be subject to permanent disqualification by order of the Chairman of the Board in writing, subject to the subsequent action of the Board of Trustees.   | <p><b>A.</b> Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person’s conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;</p> <p><b>B.</b> Any person who, by reason of misconduct,</p> |
| (ii) Non-Executive Directors         |  |   |
| (iii) Independent Directors          |  |   |

|  |  |  |
|--|--|--|
|  |  | <p>after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities. The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;</p> <p><b>C.</b> Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p><b>D.</b> Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporate Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;</p> <p><b>E.</b> Any person earlier elected as independent trustee who becomes an officer, employee or consultant of the same corporation;</p> <p><b>F.</b> Any person judicially declared as insolvent;</p> <p><b>G.</b> Any person found guilty by final judgment or order of a foreign court or equivalent financial</p> |
|--|--|--|

|                                      |  |  |
|--------------------------------------|--|--|
|                                      |  | regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (a) to (e) above;<br><b>H.</b> Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.  |
| <b>d. Temporary Disqualification</b> |  |  |
| (i) Executive Directors              | Any Director shall be subject to temporary disqualification by order of the Chairman of the Board in writing, subject to the subsequent action of the Board of Trustees. | <b>A.</b> Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.<br><br><b>B.</b> Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of succeeding election.<br><br><b>C.</b> Dismissal or termination for cause as trustee of any corporation covered by this Manual. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.<br><br><b>D.</b> If the beneficial equity ownership of an independent trustee in the corporation or its subsidiaries and affiliates exceeds two percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.<br><br><b>E.</b> If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final. |
| (ii) Non-Executive Directors         |  |  |
| (iii) Independent Directors          |  |  |
| <b>e. Removal</b>                    |  |  |
| (i) Executive Directors              | Any Director shall be subject to removal by order of the Chairman of the Board in writing, subject to the subsequent action of the Board of Trustees.                    | All the Directors of the corporation shall be subject to removal by resolution of the Board at any time, with or without cause, provided a majority of the Board shall vote in favor thereof.  |
| (ii) Non-Executive Directors         |  |  |
| (iii) Independent Directors          |  |  |
| <b>f. Re-instatement</b>             |  |  |
| (i) Executive Directors              | Same as Selection/Appointment and Re-appointment   | Same as Selection/Appointment and Re-appointment   |
| (ii) Non-Executive Directors         |  |  |
| (iii) Independent Directors          |  |  |
| <b>g. Suspension</b>                 |  |  |
| (i) Executive Directors              | Any Director shall be subject to   | All the Directors of the corporation shall be  |

|                              |  |  |
|------------------------------|--|--|
| (ii) Non-Executive Directors | peremptory suspension by order of the Chairman of the Board in writing, subject to the subsequent action of the Board of Trustees. | subject to suspension by resolution of the Board at any time, with or without cause, provided a majority of the Board shall vote in favor thereof. |
| (iii) Independent Directors  |  |  |

#### Voting Result of the last Annual General Meeting

| Name of Director         | Votes Received |
|--------------------------|----------------|
| Lourdes R. Montinola     | 1,310,229      |
| Aurelio R. Montinola III | 1,310,229      |
| Antonio R. Montinola     | 1,310,229      |
| Angelina P. Jose         | 1,310,229      |
| Paulino Y. Tan           | 1,310,229      |
| Gianna R. Montinola      | 1,310,228      |
| Sherisa P. Nuesa         | 1,310,228      |
| Robert F. Kuan           | 1,310,228      |
| Edilberto C. de Jesus    | 1,310,228      |

#### 6) Orientation and Education Program

- (a) Disclose details of the company's orientation program for new directors, if any.

All new Directors are required to attend the seminar on Good Corporate Governance to be conducted by accredited company/group.

- (b) State any in-house training and external courses attended by Directors and Senior Management<sup>3</sup> for the past three (3) years: NONE

- (c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

| Name of Director/Officer  | Date of Training   | Program  | Name of Training Institution                  |
|---------------------------|--------------------|--|---|
| Michael M. Alba           | Nov. 16, 2012      | Corporate Governance & Anti-Money Laundering Act Seminar                       | Philippine Securities Consultancy Corporation |
| Angelina P. Jose          | March 26, 2013     | ASEAN CG Scorecard Information Briefing  | Institute of Corporate Directors              |
| Sherisa P. Nuesa          | Sept. 11, 2012     | ASEAN Corporate Governance Launch  | Institute of Corporate Directors              |
| Atty. Gianna R. Montinola | Feb. 27 & 28, 2012 | Integrated Marketing & Communications for Higher Education Providers Workshop. | Pacific Conference Pte Ltd., Singapore        |

#### B. CODE OF BUSINESS CONDUCT & ETHICS

- 1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

<sup>3</sup> Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

| <b>Business Conduct &amp; Ethics</b>                        | <b>Directors</b>  | <b>Senior Management</b>   | <b>Employees</b>   |
|---|---|--|--|
| (a) Conflict of Interest                                    | If an actual or potential conflict of interest may arise, a trustee should fully and immediately disclose it and should not participate in the discussion-making process. A trustee who has a continuing material conflict of interest with the company should seriously consider resigning from his post. A conflict of interest shall be considered material if the trustee's personal or business interest is antagonistic to that of the corporation or stands to gain financial advantage at the expense of the corporation. | If an actual or potential conflict of interest may arise, a senior manager should fully and immediately disclose it and should not participate in the discussion-making process. A senior manager who has a continuing material conflict of interest with the company should seriously consider resigning from his post. A conflict of interest shall be considered material if the senior manager's personal or business interest is antagonistic to that of the corporation or stands to gain financial advantage at the expense of the corporation. | If an actual or potential conflict of interest may arise, an employee should fully and immediately disclose it and should not participate in the discussion-making process. An employee who has a continuing material conflict of interest with the company should seriously consider resigning from his post. A conflict of interest shall be considered material if the employee's personal or business interest is antagonistic to that of the corporation or stands to gain financial advantage at the expense of the corporation. |
| (b) Conduct of Business and Fair Dealings                   | The basic principle to observe is that a trustee should not use his position to profit or gain some benefit or advantage for himself and/or his related interest. He should avoid situations that may compromise his impartiality.  | The basic principle to observe is that a senior manager should not use his position to profit or gain some benefit or advantage for himself and/or his related interest. He should avoid situations that may compromise his impartiality.  | The basic principle to observe is that an employee should not use his position to profit or gain some benefit or advantage for himself and/or his related interest. He should avoid situations that may compromise his impartiality.   |
| (c) Receipt of gifts from third parties                     | Receipt of gifts from third parties especially with business dealings with the company is strictly prohibited as it may compromise a trustee's impartiality.  | Receipt of gifts from third parties especially with business dealings with the company is strictly prohibited as it may compromise a senior manager's impartiality.  | Receipt of gifts from third parties especially with business dealings with the company is strictly prohibited as it may compromise an employee's impartiality.   |
| (d) Compliance with Laws & Regulations                      | As a listed corporation, the company as well as its directors and officers are strictly enjoined to faithfully comply with all applicable laws, rules and regulations.  | As a listed corporation, the company as well as its senior managers are strictly enjoined to faithfully comply with all applicable laws, rules and regulations.  | As a listed corporation, the company as well as its employees are strictly enjoined to faithfully comply with all applicable laws, rules and regulations.  |
| (e) Respect for Trade Secrets/Use of Non-public Information | A trustee should keep secure and confidential all non-public information he may   | A senior manager should keep secure and confidential all non-public information he may   | An employee should keep secure and confidential all non-public information he may acquire as an  |

|  |  |  |  |
|--|--|--|--|
|  | acquire as a trustee. He should not reveal confidential information to unauthorized persons without the authority /permission of the board.  | acquire as a senior manager. He should not reveal confidential information to unauthorized persons without the authority /permission of the board.   | employee. He should not reveal confidential information to unauthorized persons without the authority /permission of the board.  |
| (f) Use of Company Funds, Assets and Information | Company funds and assets should be used effectively and exclusively for business related activities only. Company information shall, likewise, be used for the exclusive benefit of the company. | Company funds and assets should be used effectively and exclusively for business related activities only. Company information shall, likewise, be used for the exclusive benefit of the company. | <ul style="list-style-type: none"> <li>Only employees duly authorized, directly or by delegation, shall have custody of funds or property belonging or entrusted to the University. Employees are required to exercise due diligence and care in the handling thereof.</li> </ul>  |
| (g) Employment & Labor Laws & Policies           | The company and its directors and officers are strictly enjoined to comply with all applicable laws, rules and regulations including employment and labor laws and policies                      | The company and its senior managers are strictly enjoined to comply with all applicable laws, rules and regulations including employment and labor laws and policies                             | <ul style="list-style-type: none"> <li>The University's personnel policy provides the employees equality of opportunity, regardless of race, color, sex, creed, political affiliation or marital status and shall not show partiality or grant special favors to any one employee or group of employees.</li> <li>The University maintains control of the hiring of personnel through the application of a standard requisition policy and procedure.</li> <li>Vacancies are filled by promotion from within the University whenever possible. If a suitable candidate is not already available from the staff, a new candidate is sought out in accordance with a standard set of rules.</li> </ul> |
| (h) Disciplinary action                          | While positive approach is still the best approach, it is nevertheless, necessary to impose disciplinary actions as deterrent to fraud and other misdeeds.                                       | While positive approach is still the best approach, it is nevertheless, necessary to impose disciplinary actions as deterrent to fraud and other misdeeds.                                       | <ul style="list-style-type: none"> <li>The Code of Conduct sets the norm of conduct to be observed by all FEU employees while within the University premises or while engaged in the discharge and performance of their official functions. The Code of Conduct also provides a guide to the University in imposing corrective actions to</li> </ul>   |



|                         |  |  |  |
|-------------------------|--|--|--|
|                         |  |  | employees.   |
| (i) Whistle Blower      | The company encourages responsible whistle blowers and gives them adequate protection. On the other hand, irresponsible and indiscriminate accusations are netted the corresponding sanctions. | The company encourages responsible whistle blowers and gives them adequate protection. On the other hand, irresponsible and indiscriminate accusations are netted the corresponding sanctions.   | The company encourages responsible whistle blowers and gives them adequate protection. On the other hand, irresponsible and indiscriminate accusations are netted the corresponding sanctions.   |
| (j) Conflict Resolution | Conciliation Meeting   | <ul style="list-style-type: none"> <li>• The University resolves conflicts/issues through: <ul style="list-style-type: none"> <li>- Conduct of Audit</li> <li>- Ad Hoc Committees for administrative cases</li> <li>- Conciliation Meetings with HRD</li> <li>- Department Meetings</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• The University resolves conflicts/issues through: <ul style="list-style-type: none"> <li>- Labor Management Committee Meetings</li> <li>- Grievance Committee and Procedure</li> <li>- Conduct of Audit</li> <li>- Ad Hoc Committees for administrative cases</li> <li>- Committee on Sexual Harassment and Decorum</li> <li>- Conciliation Meetings with HRD</li> <li>- Department Meetings</li> </ul> </li> </ul> |

- 2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees? Yes
- 3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

The **Code of Conduct** includes policies and guidelines that reinforce our values and set forth our steadfast expectations regarding the norm of conduct to be observed by all FEU employees. The Code aims to provide a safe, secured and healthy work environment, create harmonious and productive work relationships, and nurture our individual growth not only as FEU employees but more importantly as responsible members of our community.

The Code of Conduct is implemented as follows:

1. Each employee and faculty acknowledges receipt of the Code of Conduct.
2. Employees and faculty are briefed on the contents of the Code of Conduct.
3. The Department Head/Dean submits to HRD/Academic Affairs Office an incident report based on the alleged offense or violation of the employee/faculty.
4. Based on the incident report, HRD/Academic Affairs Office issues to the involved employee/faculty a notice to explain, indicating the offense and corrective action.
5. An Ad hoc Committee is created, depending on the explanation and evidence, to conduct further investigation and recommend appropriate corrective action.
6. The Ad Hoc Committee recommends to the University President the corrective action for the offense based on the Code of Conduct.
7. The President endorses the recommendation of the Ad Hoc Committee to the Legal Counsel for review.
8. HRD/Academic Affairs Office issues a notice of the decision and corresponding corrective action to the employee/faculty, copy furnished the Union.

#### 4) Related Party Transactions

##### (a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

| Related Party Transactions                                   | Policies and Procedures  |
|--|--|
| (1) Parent Company   | <p>As a rule, related party transactions are being discouraged. To start with, applicants for employment cannot be hired if they are related to any employee up to the 4th degree of relation. Employees are also not allowed to supply the needs of the company or any of its concessionaires. Dealings falling under the category of related party transactions should be approved by the Board of Trustees and such should, at least be:</p> <ol style="list-style-type: none"> <li>1. Above board.</li> <li>2. Transparent</li> <li>3. Arm's length</li> <li>4. Non-bias</li> <li>5. Without special favor</li> <li>6. Not disadvantageous to the company</li> </ol> <p>In other words, it must be to the best interest of the company as a whole.</p> |
| (2) Joint Ventures   |  |
| (3) Subsidiaries   |  |
| (4) Entities Under Common Control                            |  |
| (5) Substantial Stockholders                                 |  |
| (6) Officers including spouse/children/siblings/parents      |  |
| (7) Directors including spouse/children/siblings/parents     |  |
| (8) Interlocking director relationship of Board of Directors |  |

##### (b) Conflict of Interest

###### (i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved. NONE

|                                  | Details of Conflict of Interest (Actual or Probable) |
|----------------------------------|--|
| Name of Director/s               | N/A  |
| Name of Officer/s                |  |
| Name of Significant Shareholders |  |

###### (ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

|         | Directors/Officers/Significant Shareholders   |
|---------|---|
| Company | <p>Conflict of interest normally happens when a person has vested interest in both parties entering into transactions. Therefore, to resolve possible conflict of interest, all transactions between the company and/or its group and their directors, officers &amp; significant shareholders shall pass</p> |
| Group   |   |

|  |   |
|--|---|
|  | through the BOT whose standing policy is to allow such transactions only if they are above board, transparent, arm's length, non-bias, without special favor and not disadvantageous to the company as a whole. Interested parties are also not allowed to participate in deliberating and deciding on said transactions. |
|--|---|

5) Family, Commercial and Contractual Relations

- (a) Indicate, if applicable, any relation of a family,<sup>4</sup> commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

| Names of Related Significant Shareholders | Type of Relationship | Brief Description of the Relationship                                    |
|---|----------------------|--|
| Seyrel Investments and Realty Corporation | Family Corporation   | LRM is the President<br>ARM is the Chairman<br>GRM is the Vice president |
| Desrey, Inc                               | Family Corporation   | LRM is the President<br>ARM is the Chairman<br>GRM is the Treasurer      |

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

| Names of Related Significant Shareholders | Type of Relationship | Brief Description |
|---|----------------------|-------------------|
|   | NONE                 |                   |
|   |                      |                   |
|   |                      |                   |
|   |                      |                   |

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

| Name of Shareholders | % of Capital Stock affected (Parties) | Brief Description of the Transaction |
|----------------------|---------------------------------------|--------------------------------------|
|                      | NONE                                  |                                      |
|                      |                                       |                                      |

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

|                                      | Alternative Dispute Resolution System |
|--------------------------------------|---------------------------------------|
| Corporation & Stockholders           | Conciliation meetings                 |
| Corporation & Third Parties          |                                       |
| Corporation & Regulatory Authorities |                                       |
| Corporation & Employees/Faculty      |                                       |

<sup>4</sup> Family relationship up to the fourth civil degree either by consanguinity or affinity.

## C. BOARD MEETINGS & ATTENDANCE

1) Are Board of Directors' meetings scheduled before or at the beginning of the year? YES

2) Attendance of Directors

| Board       | Name   | Date of Election | No. of Meetings Held during the year | No. of Meetings Attended | %          |
|-------------|--|------------------|--------------------------------------|--------------------------|------------|
| Chairman    | Lourdes R. Montinola   | 08/2012          | 12                                   | 12                       | 100%       |
| Vice-Chair  | Aurelio R. Montinola III   | 08/2012          | 12                                   | 10                       | 83%        |
| President   | Lydia B. Echaz – Retired 8/2012<br>Michael M. Alba – Appointed 10/2012 | 08/2012          | 12                                   | 6<br>6                   | 50%<br>50% |
| Corp. Sec.  | Angelina P. Jose   | 08/2012          | 12                                   | 12                       | 100%       |
| Trustee     | Paulino Y. Tan   | 08/2012          | 12                                   | 12                       | 100%       |
| Trustee     | Gianna R. Montinola  | 08/2012          | 12                                   | 3                        | 25%        |
| Independent | Sherisa P. Nuesa   | 08/2012          | 12                                   | 10                       | 83%        |
| Independent | Robert F. Kuan   | 08/2012          | 12                                   | 11                       | 92%        |
| Independent | Edilberto C. de Jesus – 1 <sup>st</sup> elected 8/2012                 | 08/2012          | 12                                   | 6                        | 50%        |
| Trustee     | Antonio R. Montinola - 1st Elected 8/2012 & Resigned 9/2012            | 8/2012           | 12                                   | 1                        | 8%         |

3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times? Yes, once.

4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

No. A majority of Trustees is all that is necessary at all meetings to constitute a quorum for the transaction of any business.

5) Access to Information

(a) How many days in advance are board papers<sup>5</sup> for board of directors meetings provided to the board? 2 days

(b) Do board members have independent access to Management and the Corporate Secretary? YES

(c) State the policy of the role of the company secretary. She is responsible for the safekeeping and preservation of the integrity of the minutes of the Board and its committees including other official records. She informs the members of the Board the agenda of their meetings and ensures that they are provided with accurate information necessary for an intelligent decision. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc? YES

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? YES, except in legal. Please explain should the answer be in the negative. The company has an in-house legal counsel and an external legal adviser.

<sup>5</sup> Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes ☒ No ☐

| Committee            | Details of the procedures |
|----------------------|---------------------------|
| Executive            | Via email                 |
| Audit                | Via email                 |
| Nomination           | Via email                 |
| Remuneration         | Via email                 |
| Corporate Governance | Via email                 |
| Risk Management      | Via email                 |

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details: YES

| Procedures                                | Details                    |
|---|----------------------------|
| Consult External Auditors                 | Accounting and tax matters |
| Consult Internal legal counsel            | Labor matters              |
| Consult External & internal legal counsel | Legal matters              |
| Consult External & internal legal counsel | Other regulatory matters   |

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

| Existing Policies                                 | Changes   | Reason                           |
|---|---|----------------------------------|
| Non capitalization of PPE worth ₱ 5,000           | From ₱ 5,000 to ₱ 20,000  | Materiality principle            |
| Generalized minutes in Board of Trustees meetings | More substantial discussion of matters taken up during the meeting shall be included in the minutes | Clarity                          |
| Funds accounting for all types of funds           | Funds accounting only for fiduciary funds   | Compliance with BIR requirements |

## D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the 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    | 1. Entry rates are based on industry rates and applicant's qualifications.<br>2. Subsequent increases are based on yearly performance evaluation and the degree/scope of one's responsibility. |  |
| (2) Variable remuneration | NONE   |  |
| (3) Per diem allowance    | Per diem, if any, shall be approved by EXCOM and ratified by the Board of  |  |

|   |  |
|---|--|
|   | Trustees.  |
| (4) Bonus   | Standard bonuses similar to those given to employees.  |
| (5) Stock Options and other financial instruments | NONE   |
| (6) Others (specify)                              | Standard benefits similar to those given to employees. |

## 2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

|                         | Remuneration Policy  | Structure of Compensation Packages   | How Compensation is Calculated  |
|-------------------------|--|--|---|
| Executive Directors     | 1. As executive, remuneration & benefits are similar to those given to employees<br><br>2. As director, allowance given to Trustees<br><br>3. As director, bonus given to the Trustees | •Fixed monthly salary<br>•CB/EB/PLCC<br>•Medical, retirement & other benefits<br><br>2. Gas allowance for BOT meeting<br><br>3. year-end directors bonus | •Fixed rate less absences<br>•length of service<br>•fixed except retirement which is based on basic<br><br>2. attendance based<br><br>3. term based |
| Non-Executive Directors | No remuneration & benefits except for allowance & bonus given to Trustees  | •gasoline allowance for BOT meeting<br>•transportation/representation allowance for attending EXCOM meeting<br>•year-end Director's bonus                | •attendance based<br>•attendance based<br><br>•term based   |

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? In certain cases.

Provide details for the last three (3) years.

| Remuneration Scheme  | Date of Stockholders' Approval |
|--|--------------------------------|
| Compensation package as an executive is similar to employees and is governed by existing company policies on remuneration. | N/A                            |
| Gasoline allowance of ₱ 2, 000.00 for attending BOT meetings   | Minimal amount only            |
| Transportation/representation allowance for non-executive directors who are members of EXCOM                               | Reasonable amount only         |
| Year-end directors bonus   | May 8, 1976                    |

### 3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

| Remuneration Item                                    |        | Executive Directors            | Non-Executive Directors (other than independent directors) | Independent Directors |
|--|--------|--------------------------------|--|-----------------------|
| (a) Fixed Remuneration                               | E<br>D | ₱31,208,806.00<br>-0-          | NONE   | NONE                  |
| (b) Variable Remuneration                            |        | NONE                           | NONE   | NONE                  |
| (c) Per diem Allowance                               |        | NONE                           | NONE   | NONE                  |
| (d) Bonuses/13 <sup>th</sup> month                   | E<br>D | ₱5,746,222.00<br>₱4,500,000.00 | -0-<br>₱4,500,000.00                                       | -0-<br>₱4,500,000.00  |
| (e) Stock Options and/or other financial instruments |        | NONE                           | NONE   | NONE                  |
| (f) Transportation/representation as EXCOM           |        | NONE                           | ₱693,488.00  | NONE                  |
| (g) PLCC   | E<br>D | ₱ 3,164,337.00<br>-0-          | NONE   | NONE                  |
| <b>Total</b>   |        | ₱44,619,365.00                 | ₱5,193,488.00  | ₱4,500,000.00         |

| Other Benefits                          |        | Executive Directors  | Non-Executive Director (other than independent directors) | Independent Directors |
|---|--------|----------------------|---|-----------------------|
| 1) Advances                             |        | NONE                 | NONE  | NONE                  |
| 2) Credit granted                       |        | NONE                 | NONE  | NONE                  |
| 3) Pension Plan/s Contributions         | E<br>D | ₱6,241,761.00<br>-0- | NONE  | NONE                  |
| (d) Pension Plans, Obligations incurred |        | NONE                 | NONE  | NONE                  |
| (e) Life Insurance Premium              |        | NONE                 | NONE  | NONE                  |
| (f) Hospitalization Plan                | E<br>D | ₱165,000.00<br>-0-   | NONE  | NONE                  |
| (g) Car Plan                            | E<br>D | ₱343,200.00<br>-0-   | NONE  | NONE                  |
| (h) Gasoline allowance for BOT          | D      | ₱72,000.00           | ₱72,000.00  | ₱72,000.00            |
| <b>Total</b>                            |        | ₱6,821,961.00        | ₱72,000.00  | ₱72,000.00            |

#### 4) Stock Rights, Options and Warrants

##### (a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to 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 |
|-----------------|---|---|-----------------------------|----------------------------|
|                 | N/A                                     |   |                             |                            |
|                 |   |   |                             |                            |
|                 |   |   |                             |                            |
|                 |   |   |                             |                            |

##### (b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

| Incentive Program | Amendments | Date of Stockholders' Approval |
|-------------------|------------|--------------------------------|
|                   | N/A        |                                |
|                   |            |                                |
|                   |            |                                |

#### 5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

| Name of Officer/Position                         | Total Remuneration       |
|--|--------------------------|
| Juan Miguel R. Montinola - CFO                   | Salary - ₱14,681,182.80  |
| Glenn Z. Nagal – Comptroller /Compliance Officer | HP – 56,035.05           |
| Herminia I. Maliwat - Treasurer                  | CB/EB/SYEB- 2,666,384.39 |
| Dr. Miguel M. Carpio - VPAS                      | PLCC – 739,709.25        |
| Dr. Maria Teresa P. Tinio - SVPAA                | <u>₱18,143,311.49</u>    |



## E. BOARD COMMITTEES

### 1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

| Committee | No. of Members          |                                 |                           | Committee Charter | Functions  | Key Responsibilities  | Power  |
|-----------|-------------------------|---------------------------------|---------------------------|-------------------|--|---|--|
|           | Executive Director (ED) | Non-executive Director or (NED) | Independent Director (ID) |                   |  |   |  |
| Executive | 3                       | 2                               |                           |                   | General policy formulation   | To steer the company towards the attainment of set goals.   | To approve and endorse for ratification of the Board all major company policies.   |
| Audit     | 1                       |                                 | 3                         | yes               | <ul style="list-style-type: none"> <li>Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;</li> <li>Perform oversight functions over the corporation's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;</li> <li>Review the annual internal audit plan to ensure its conformity with the objectives of the corporation. The plan should include the audit scope, resources and budget necessary to implement it;</li> <li>Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize</li> </ul> | <p>Oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct</p> | <ul style="list-style-type: none"> <li>To appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.</li> <li>Resolve any disagreements between management and the auditor regarding financial reporting.</li> <li>Pre-approve all auditing and non-audit services.</li> <li>Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.</li> <li>Seek any information it requires from employees-all of whom are directed to cooperate with the committee's requests-or external parties.</li> </ul> |

|  |  |  |  |  |  |
|--|--|--|--|--|--|
|  |  |  |  | <p>duplication of efforts;</p> <ul style="list-style-type: none"> <li>• Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;</li> <li>• Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, including financial reporting control and information technology security;</li> <li>• Review the reports submitted by the internal and external auditors;</li> <li>• Review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters: <ul style="list-style-type: none"> <li>-Any change/s in accounting policies and practices</li> <li>-Major judgmental areas</li> <li>-Significant adjustments resulting from the audit</li> <li>-Going concern assumptions</li> <li>-Compliance with accounting standards</li> <li>-Compliance with tax, legal and regulatory requirements</li> </ul> </li> <li>• Coordinate, monitor and facilitate compliance with laws, rules and regulations;</li> <li>• Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the</li> </ul> | <ul style="list-style-type: none"> <li>• Meet with company officers, external auditors, or outside counsel, as necessary.</li> </ul> |
|--|--|--|--|--|--|

|                      |   |   |   |     |  |  |   |
|----------------------|---|---|---|-----|--|--|---|
|                      |   |   |   |     | <p>corporation's annual report;</p> <ul style="list-style-type: none"> <li>Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee. The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.</li> </ul> |  |   |
| Nomination           | 1 | 1 | 1 |     | To review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval.  | To assess the effectiveness of the Board's processes and procedures in the election or replacement of trustees.                            | To nominate qualified candidates.                                 |
| Remuneration         | 2 |   | 1 |     | To establish a formal and transparent procedure for developing a policy on remuneration of trustees and officers   | To ensure that their compensation is consistent with the corporation's culture, strategy and the business environment in which it operates | To set reasonable & competitive compensation for all employees.   |
| Corporate Governance |   | 1 | 2 | yes | To create an environment of good governance within the organization.   | To institutionalized the principles of good corporate governance in all the levels of the business organizations.                          | To enforce compliance with good corporate governance practice.    |
| Risk Management      | 3 |   | 2 |     | To identify all possible risks that could befall the company.  | To assess the significance of the risk and their likelihood of occurrence.   | To adopt measures to eliminate adverse effects of possible risks. |

## 2) Committee Members

### (a) Executive Committee

| Office           | Name                     | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %    | Length of Service in the Committee |
|------------------|--------------------------|---------------------|----------------------|--------------------------|------|------------------------------------|
| Chairman         | Lourdes R. Montinola     | June 1989           | 10                   | 9                        | 90%  | 23                                 |
| Member           | Aurelio R. Montinola     | June 1989           | 10                   | 1                        | 10%  | 23                                 |
| Member           | Michael C. Alba          | Oct. 2012           | 10                   | 4                        | 40%  | 1                                  |
| Member           | Angelina P. Jose         | June 1998           | 10                   | 10                       | 100% | 14                                 |
| Member           | Paulino Y. Tan           | June 1991           | 10                   | 10                       | 100% | 21                                 |
| Alternate Member | Juan Miguel R. Montinola | Sept. 2009          | 10                   | 10                       | 100% | 3                                  |

### (b) Audit Committee

| Office   | Name                  | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %    | Length of Service in the Committee |
|----------|-----------------------|---------------------|----------------------|--------------------------|------|------------------------------------|
| Chairman | Sherisa P. Nuesa      | Aug. 2010           | 4                    | 4                        | 100% | 2                                  |
| Member   | Edilberto C. de Jesus | Aug. 2012           | 4                    | 3                        | 75%  | 1                                  |
| Member   | Robert F. Kuan        | Sept. 2004          | 4                    | 3                        | 75%  | 7                                  |
| Member   | Paulino Y. Tan        | June 1991           | 4                    | 4                        | 100% | 21                                 |

Disclose the profile or qualifications of the Audit Committee members.

#### **Sherisa P. Nuesa**

Ms. Nuesa is a member of the Boards of Directors of: Blackhorse Emerging Enterprises Fund (Singapore), PsiTechnologies, and ALFM Mutual Funds. She is also a Board Member of the Institute of Corporate Directors (ICD) and the Financial Executives Institute of the Philippines (FINEX). She was formerly a Managing Director of conglomerate Ayala Corporation and served as a Board Member of various Ayala Land subsidiaries. She was installed in the Society of Fellows (Professional Directorship Program) of the Institute of Corporate Directors, Philippines in 2011. In 2008, she was voted ING-Finex (Financial Executives Institute of the Philippines) CFO of the Year. Ms. Nuesa graduated Summa Cum Laude from the Far Eastern University (Institute of Accounts, Business and Finance) in 1974. She holds a Master in Business Administration (MBA) degree from the Ateneo-Regis Graduate School of Business. In 1991, she attended the Financial Management Program for Executives, at Stanford University in California and in 1999, she completed the three-month Advanced Management Program of the Harvard Business School for senior executives, in Boston, Massachusetts

#### **Edilberto C. de Jesus**

He is a member of the Asia Society's International Council and of the Advisory Committee of the Asia-Europe Education Hub since its establishment in 2006 by the Asia Europe Foundation under the framework of the ASEM (Asia Europe Ministerial Meeting). He assumed the presidency of the Asian Institute of Management (AIM) in July 2009. He was President of the private, not-for-profit University of the Cordilleras. He served in 2003 as the President of SEAMEO (Southeast Asia Ministers of Education Organization) and accepted a term as Secretariat Director of SEAMEO from 2005 through 2007. He was appointed Secretary of Education in 2002. He was President of Far Eastern University from July 15, 1995 to September 30, 2002. While FEU president, he served on the boards of the Coordinating Council of Private Educational Associations and the Private Association of Colleges and Universities, which elected him President in 2002. Dr. de Jesus completed a Ph. D. degree in Modern Southeast Asian History at Yale University. He had also taken post-graduate

courses in East Asian History at the University of Kansas and courses in comparative literature at the Jesuit Ateneo de Manila University, where he completed his basic education and earned his B.A. Honors degree in the Humanities, cum laude.

#### **Robert F. Kuan**

Other Business Affiliations: Trustee, St. Luke's Medical Center, Quezon City (Chairman, 1996-2011); Trustee, St. Luke's Medical Center, Global City, Inc. (Chairman, 2009-2011); Trustee, St. Luke's College of Medicine–William H. Quasha Memorial; Trustee, Brent International School of Manila; Chairman, Brent International School Baguio, Inc.; Trustee, Brent International School Subic, Inc.; Chairman, Brent International School, Inc.; Chairman, St. Theodore of Tarsus Hospital in Sagada, Inc.; Director, China Banking Corporation; Founder/President, Chowking Food Corporation (1985 - 2000); Independent Director, Far Eastern College Silang; and Director, SEAOIL Philippines, Inc. Mr. Kuan graduated from the University of the Philippines (1970) with a degree of Bachelor of Science in Business Administration. In 1975, he earned his Masters in Business Management from the Asian Institute of Management (AIM). In 1993, he took up the Top Management Program at AIM, a program exclusively for company Presidents and Chief Executive Officers. He was a TOFIL (Ten Outstanding Filipino) Awardee in 2003 in the field of Business & Entrepreneurship; Agora Awardee for Entrepreneurship; Triple-A Awardee of AIM; and Outstanding Alumnus of the University of the Philippines (UP) in the field of Business.

#### **Paulino Y. Tan**

Other Business Experience: President of Asia Pacific College; IT Services Consultant, SM (Shoemart) Inc. At present, member of the Board of Directors/Trustees of the following companies: Nicanor Reyes Educational Foundation, Inc., FEU Educational Foundation, Inc., East Asia Educational Foundation, Inc., Lyceum of Batangas, Lyceum of Laguna, Foundation for Upgrading the Standard of Education (FUSE), SM (Shoemart) Foundation, Inc., Asia Pacific Technology Educational Foundation, FERN Realty Corporation and Far Eastern College Silang. Dr. Tan obtained the Degree of Bachelor in Science in Chemical Engineering (summa cum laude) from De La Salle University. He obtained both his M.S. and Ph.D. in Chemical Engineering from the University of Notre Dame, Indiana, U.S.A.

Describe the Audit Committee's responsibility relative to the external auditor.

1. Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
2. Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
3. Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
4. On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

#### **(c) Nomination Committee**

| Office         | Name                | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %    | Length of Service in the Committee |
|----------------|---------------------|---------------------|----------------------|--------------------------|------|------------------------------------|
| Chairman (NED) | Gianna R. Montinola | June 1996           | 1                    | 1                        | 100% | 16                                 |
| Member (NED)   | Paulino Y. Tan      | June 1991           | 1                    | 1                        | 100% | 21                                 |
| Member (ID)    | Sherisa P. Nuesa    | Aug. 2010           | 1                    | 1                        | 100% | 2                                  |

(d) Remuneration Committee

| Office      | Name                     | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %    | Length of Service in the Committee |
|-------------|--------------------------|---------------------|----------------------|--------------------------|------|------------------------------------|
| Chairman    | Lourdes R. Montinola     | June 1989           | 1                    | 1                        | 100% | 23                                 |
| Member (ID) | Robert F. Kuan           | Sept. 2004          | 1                    | 1                        | 100% | 8                                  |
| Member      | Juan Miguel R. Montinola | Sept. 2009          | 1                    | 1                        | 100% | 3                                  |

(e) Corporate Governance Committee

Provide the same information on all other committees constituted by the Board of Directors:

| Office        | Name                  | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %    | Length of Service in the Committee |
|---------------|-----------------------|---------------------|----------------------|--------------------------|------|------------------------------------|
| Chairman (ID) | Edilberto C. de Jesus | Aug. 2012           | 1                    | 1                        | 100% | 1                                  |
| Member (ID)   | Robert F. Kuan        | Sept. 2004          | 1                    | 1                        | 100% | 8                                  |
| Member (NED)  | Gianna R. Montinola   | June 1996           | 1                    | 1                        | 100% | 16                                 |

(f) Risk Management Committee

| Office        | Name                     | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %    | Length of Service in the Committee |
|---------------|--------------------------|---------------------|----------------------|--------------------------|------|------------------------------------|
| Chairman (ID) | Robert F. Kuan           | Sept. 2004          | 1                    | 1                        | 100% | 8                                  |
| Member (ED)   | Aurelio R. Montinola III | June 1989           | 1                    | 1                        | 100% | 23                                 |
| Member (ED)   | Michael C. Alba          | Oct. 2012           | 1                    | 1                        | 100% | 1                                  |
| Member (ID)   | Sherisa P. Nuesa         | Aug. 2010           | 1                    | 1                        | 100% | 2                                  |
| Member        | Juan Miguel R. Montinola | Sept. 2009          | 1                    | 1                        | 100% | 3                                  |

3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

| Name of Committee         | Name  | Reason                              |
|---------------------------|---|-------------------------------------|
| Executive                 | Dr. Lydia B. Echauz replaced by Dr. Michael M. Alba   | Compulsory retirement of Dr. Echauz |
| Audit                     | Dr. Renato L. Paras replaced by Edilberto C. De Jesus | Death of Dr. Renato L. paras        |
| Nomination                | NONE  | N/A                                 |
| Remuneration              | NONE  | N/A                                 |
| Corporate Governance      | Dr. Renato L. Paras replaced by Edilberto C. De Jesus | Death of Dr. Renato L. paras        |
| Risk Management Committee | NONE  | N/A                                 |

#### 4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

| Name of Committee         | Work Done  | Issues Addressed  |
|---------------------------|--|---|
| Executive                 | Formulated various company policies of the University.                               | Appointments, scholarships, academic issues and other operational concerns. |
| Audit                     | Reviewed & approved financial statements.  | Reportorial requirements  |
| Nomination                | Screened, evaluated & shortlisted nominees for Board of Trustees.                    | Ensures good composition of Board of Trustees                               |
| Remuneration              | Set standard hiring rates.   | Inequitable pay   |
| Corporate Governance      | Set good governance standard within the organization                                 | Ensures efficiency & compliance with existing laws & regulations.           |
| Risk Management Committee | Identified & evaluated the significance & likelihood of occurrence of various risks. | Minimize adverse effects of possible risks.                                 |

#### 5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

| Name of Committee         | Planned Programs   | Issues to be Addressed   |
|---------------------------|--|--|
| Executive                 | Improvement of faculty, facilities & curriculum as well as operational policies. | <ul style="list-style-type: none"> <li>•Eliminate misalignment of degrees vis-à-vis industry needs.</li> <li>•Promote operational efficiency.</li> </ul> |
| Audit                     | Improvement of audit procedures  | To cover all possible areas of concern.  |
| Nomination                | Improvement of nomination procedures   | To further improve composition of the BOT.   |
| Remuneration              | Improvement of remuneration package  | To maintain a reasonable & competitive remuneration package.   |
| Corporate Governance      | Improvement of good governance practices   | Continuous transparency, efficiency & compliance.  |
| Risk Management Committee | Improvement of risk detection procedures.  | To reduce adverse effects of any risk to the minimum.  |

### F. RISK MANAGEMENT SYSTEM

#### 1) Disclose the following:

(a) Overall risk management philosophy of the company;

Far Eastern University considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk will provide an essential contribution towards the achievement of the FEU's strategic and operational objectives and goals.

Risk management must be an essential part of the FEU's decision making and routine management, and must be incorporated within the strategic and operational planning processes at all levels across the University.

Risk assessments must be conducted on new endeavors and activities, including projects, processes, systems and commercial activities to ensure that these are aligned with the FEU's objectives and goals. Any risks or opportunities arising from these assessments will be identified, analysed and reported to the appropriate management level. FEU is committed to ensuring that all staff, particularly Heads of Schools, Institutes and Departments are provided with adequate guidance and training on the principles of risk management and their responsibilities to implement risk management effectively.

The University will regularly review and monitor the implementation and effectiveness of the risk management process, including the development of an appropriate risk management culture across the University.

- (b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;
  - (c) Period covered by the review;
  - (d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and
  - (e) Where no review was conducted during the year, an explanation why not.
- The directors have not yet reviewed the effectiveness of the risk management system since we are only starting to establish the system; they have no criteria yet for assessing its effectiveness.

## 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:

| Risk Exposure               | Risk Management Policy  | Objective  |
|-----------------------------|---|--|
| Change of curriculum (k-12) | Financial strategy that focuses on income streams, capital campaign and cost efficiencies.  | Reduce the effect of the government mandated K-12 program over university's income position.                           |
| Natural calamity            | Business Continuity Plan (BCP) and Disaster Recovery Program of the University  | Reduce the effect of disasters and calamities on the operations of the university especially on IT and data resources. |
| Increase of tuition fee     | Government mandated increase in tuition fees vis-à-vis the autonomous status of FEU. Increase in tuition fees are strategically planned to alleviate loss of student enrollees and at the same time diminish the bad effect the increase in tuition fee may have on FEU's reputation. | Reduce the effect of loss in enrollment due to increase in tuition fees.   |

### (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  |
|--|--|--|
| Governance problems include – <ul style="list-style-type: none"> <li>Complexity in decision making</li> <li>complexity of committee structure leads to misconceptions as to the role and authority of</li> </ul> | The FEU governance model encourages excellence in research and teaching through its academic self-government or autonomous status.<br>Establishment of the audit | Develop Governance Strategy with a view to delivering a governance structure that retains the excellence associated with the University's teaching and research with good internal control and management. In the short-term |



|  |  |  |
|--|--|--|
| individual bodies;<br><ul style="list-style-type: none"> <li>inability of University Governance structure to quickly react to opportunities and threats in the external environment such as from competitors.</li> </ul> | committee to oversee corporate governance. | clarification of the roles of bodies, divisions and decision s/structure that would improve transparency and accountability. |
|--|--|--|

(c) Minority Shareholders

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

| <b>Risk to Minority Shareholders</b>   |
|--|
| Principal-principal conflict refers to conflicts between two groups of principals: controlling shareholders and minority shareholders. When minority shareholders feel their interests are not being protected, they may lose confidence in the firm sell the stock, or refuse to invest. It may also lead to abuse in power since the steer would be left solely to a few large shareholders. This may develop as major stockholders may consolidate their holdings while minority shareholders lose interest and may sell their holdings to a few majorities. Result-loose corporate governance. The control structures become a problem in corporate governance when families use their control to protect their own interests at the expense of minority shareholders. |

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:

| <b>Risk Exposure</b>                        | <b>Risk Assessment<br/>(Monitoring and Measurement Process)</b>   | <b>Risk Management and Control<br/>(Structures, Procedures, Actions Taken)</b>  |
|---|---|---|
| Hiring of incompetent & dishonest employees | Inability to attract quality staff, to retain the existing staff or offer 'opportunity culture' (career structure, development and advancement opportunities, glass ceiling measures). Salaries have been eroded in comparison with other universities and other industries. In the medium to long term could become very serious threat to the University's ability to recruit and retain staff. | Development of Human Resources Strategy and action plan. Improved promotion schemes for academic and support staff. Extensive staff development programme. Administering of qualifying exams, screening & evaluation of credentials |
| Staff and/or student dissatisfaction        | Staff and/or student dissatisfaction leads to disruption to business continuity. This could arise as a result of pressures for changes in staff pay, terms and conditions (including pension funds) b)  | Maintenance of relationships with union representatives and student councils. Increases in tuition fee are with authority of CHED. Constant facility repairs and new constructs.  |

|  |   |  |
|--|---|--|
|  | implementation of higher student tuition fees, inadequate educational facilities.   |  |
| Inadequate performance in licensure exams  | Inadequate performance in licensure exams may result in loss of reputation, decrease in enrollment and inability to recruit / retain students which may eventually result in the decrease of fund.                | Continuous research to further improve the quality of education. Continuous search and hiring of best teachers and instructors in their respective fields.   |
| Maintenance of financial sustainability and ensuring effective delivery of key strategic and operational plans. Failure to effectively safeguard university assets and failure to identify and monitor continuous flow and new sources of revenue. | Failure to maintain financial sustainability and ensuring effective delivery of key strategic and operational plans may result to Financial loss and insufficient resources for new income generating activities. | Financial strategy and financial planning and budgetary/forecasting processes. Benchmarking with other comparable institutions , local and internationalisation. Strategy implementation. Cost reduction exercise, integration and cost sharing opportunities. |
| Insufficient investment and oversight of systems developments to ensure systems and infrastructure provide the functionality and services expected of a leading global university.   | Reputational damage. Loss of, or inadequate operational processes. Major disruption to research, teaching and learning, student administration etc. Inability to manage University e.g. finances, pay staff etc.  | Planning round processes . Ongoing programmes improvement and infrastructure upgrades. Internal and external audit processes, including external penetration testing, applied to University IT systems and procedures.   |

(b) Group

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

| <b>Risk Exposure</b>                    | <b>Risk Assessment<br/>(Monitoring and Measurement Process)</b>      | <b>Risk Management and Control<br/>(Structures, Procedures, Actions Taken)</b> |
|---|--|--|
| Competition with local and other global | The University is at, and wishes to remain at the forefront of local | Analysis of strengths and weaknesses of existing and potential                 |

|   |  |  |
|---|--|--|
| universities.   | and possibly world universities. Current and aspiring competition will seek to attract outstanding staff, the highest quality students, and the attention and support of benefactors, businesses and governments. There is a risk that competition will move ahead in reputation, quality of academic output in research and education, financial capacity and physical resources. There is room for only a limited number of truly world-class institutions in the Philippines. | competition – academic, financial, etc and improvement of our university standards with the best in the Philippines. Clear competitive positioning of FEU against competition. |
| Quality of provision of undergraduate or post-graduate courses falls below expectation. Unsatisfactory student experience may lead into a loss of reputation in relation to national and international competitors. | Undergraduate course quality monitored closely by “Education Committee”  | Further analysis of quality of existing courses and invites to competent and highly qualified professors and instructors.  |

(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  |
|---|---|---|
| Risk Management Committee under the Board of Trustees | Risk Management Policy, Risk Management Plan  | Identifies, assesses, manages and monitors risks , and allows investors and other stakeholders to be informed of material changes to the Company's risk profile.  |
| Audit Committee under the Board of Trustees           | Establishment documentation and monitoring of a strong and effective Control environment. | Overseeing financial reporting and disclosure process, Monitoring choice of accounting policies and principles, overseeing the hiring and performance and independence of external Auditors, Overseeing regulatory compliance of financial reporting standards, monitoring of internal control process and evaluating risk management policies and practices. |
| Internal Audit Department                             | Regular Audit Activities, Fraud   | Provide an independent, objective   |

|  |   |  |
|--|---|--|
|  | Investigation, Process and Systems Review | assurance and consulting activity designed to add value and improve an organization's operations. Help FEU accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. |
|--|---|--|

## G. INTERNAL AUDIT AND CONTROL

### Internal Auditing and Control

#### 1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

##### (a) Explain how the internal control system is defined for the company

"The internal control system of FEU is defined and shaped by the various risks that could befall the company and the business goals it wishes to achieve."

The internal control system of the company consists of policies and procedure designed to provide reasonable assurance that 1). company assets are safeguarded and used only for business related activities; business/financial information are accurate; and 3). the company and its employees comply with existing laws and regulations.

Top management's philosophy and operating style puts adequate emphasis on the importance of controls and encourages adherence to control policies and procedures in all levels of the business organization. The control policies of the company start in the hiring, training and evaluation of employees to ensure that only competent and honest employees are hired and retained.

Since all business organizations face various risks, management tries to anticipate all forms of risks that could befall the company. Once risks are identified, they are analyzed to estimate their significance and to assess their likelihood of happening so that actions and controls can be adopted in order to minimize if not eliminate their adverse effects.

Control procedures are also established to provide reasonable assurance that business goals will be achieved including the prevention of fraud which is considered one of the most serious breaches of internal control. Example of these control procedures are the following:

1. Hiring of competent and honest employees.
2. Rotation of duties of clerical personnel.
3. Mandatory vacation for non-clerical personnel.
4. Separation of responsibilities for related operations.
5. Separation of responsibility for operations, custody of assets and accounting.
6. Use of security measures to safeguard assets.
7. Use of proofs or verifiable evidence to ensure reliability of accounting data.

The existing internal control system is continuously being monitored to detect weaknesses and improve its effectiveness. The Internal Audit Department, the examination division of the Disbursement Control

Department, the quality control auditors of the ISO as well as our external auditors work hand in hand to ensure that the company's internal control system remains strong.

- (b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate

The Board of Trustees through the audit committee is regularly apprised with the company's internal control and is satisfied with it.

- (c) Period covered by the review. Current

- (d) How often the internal controls are reviewed and the directors' criteria for assessing the effectiveness of internal control system; and Continuous

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

## 2) Internal Audit

- (a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and details of the internal audit function.

| Role                                    | Scope   | Indicate whether In-house or Outsource Internal Audit Function | Name of Chief Internal Auditor/ Auditing Firm | Reporting Process      |
|---|---|--|---|------------------------|
| Departmental Audit/ Functional Audit    | All departmental and functional processes   | In-house   | Robert W. Caracas                             | RWC to Audit Committee |
| Financial Audit                         | All financial operations and results  | In-House   | Robert W. Caracas                             | RWC to AC              |
| Operational Audit                       | All operational transactions and processes  | In-House   | Robert W. Caracas                             | RWC to AC              |
| Grant and Contract Audit                | All grant and trust funds   | In-House   | Robert W. Caracas                             | RWC to AC              |
| Fraud and Financial Irregularity Audits | All relevant transactions, records and activities that give rise to fraud.        | In-House   | Robert W. Caracas                             | RWC to AC              |
| Follow-up Audits                        | All transactions records, processes needed to resolve issues listed in the Audit. | In-House   | Robert W. Caracas                             | RWC to AC              |

- (b) Do the appointment and removal of Internal Auditor or the accounting/ auditing firm or corporation to which the internal audit function is outsourced the approval of the audit committee? Yes

- (c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The Internal Audit Department has a direct reporting relationship with the Audit Committee. Audit plans and results are reported to the Audit Committee. The Internal Audit Manager seeks first the approval of the Audit Committee before execution of Audit engagements.

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

| Name of Audit Staff  | Reason                                      |
|----------------------|---|
| Ma. Cristina Pascual | Re-assigned to Office of The CFO (NetSuite) |
| Ryan Ching           | Resignation (July 2012). Joined SGV         |

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

|                               |  |
|-------------------------------|--|
| <b>Progress Against Plans</b> | Audit activities are evaluated against audit plan.   |
| <b>Issues</b>                 | Audit issues are settled through Audit Meetings with the process owners and senior management before the issuance of final reports.      |
| <b>Findings</b>               | Audit findings are reported to the department concerned and settled with the process owners. Final reports and follow-ups are conducted. |
| <b>Examination Trends</b>     | The current examination trend shows that issues and findings are immediately settled and communicated to the appropriate departments.    |

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

| Policies & Procedures  | Implementation |
|--|----------------|
| Policy and procedure on monitoring portable equipments and assurance that these are duly accounted for | Implemented    |
| Petty cash fund handling policy  | Implemented    |
| Policy for accounting and reporting of NSTP fund.  | Implemented    |
| Policies and Procedures on MBA enrollment program  | Implemented    |
| Policy on safeguarding University owned land titles  | Implemented    |

(g) Mechanism and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitations on the non-audit services that an external auditor may provide to the company):

| Auditors (Internal and External)  | Financial Analysts   | Investment Banks  | Rating Agencies   |
|---|--|---|---|
| In performing audits, the FEU-IAD will have neither direct authority over nor responsibility materials audited. The ownership of these materials remains with the department which developed them, not with the internal audit personnel.   | <p>Our personnel of the accounting department serve as financial analysts of the company. They record financial transactions, summarize and analyze them and prepare financial statements and other financial reports to aid management in their decision making activities. The company maintains the independence of the financial analysts by:</p> <ol style="list-style-type: none"> <li>1. Separating them from those in-charge of operational activities.</li> <li>2. Separating them from those handling company properties and funds.</li> <li>3. Subjecting them to regular audit.</li> </ol> <p>The accounting department regularly submits financial statements and reports to the Audit Committee composed of four (4) directors, three (3) of whom are independent.</p> | <ul style="list-style-type: none"> <li>• Depository and investment banks of the company are selected by the Board of Trustees with the help of the Risk Management Committee.</li> <li>• Criteria for selection include financial stability, profitability, operational efficiency and good corporate governance.</li> <li>• Depository and investment banks of the above quality are not expected to give in to any kind of pressure both from internal and external parties. This is aside from the fact that all banks are strictly monitored and regularly examined by the BSP.</li> <li>• The Risk Management Committee approves FEU's mix of investments in terms of fixed income and equity investment. In the case of fixed income, the bank trust officer recommends the best investment opportunity to be approved by FEU's CFO and Treasurer. In the case of equity, the Risk Management Committee pre-approves a list of equity investment</li> </ul> | <ul style="list-style-type: none"> <li>• FEU is a company with a culture of good corporate governance across all level of the organization.</li> <li>• The company has five regular rating agencies as follows: <ol style="list-style-type: none"> <li>1. TUV (ISO)</li> <li>2. CHED</li> <li>3. PACUCOA</li> <li>4. PAASCU</li> <li>5. ICD</li> </ol> <p>All of the above are institutions of high integrity.</p> <li>• An institution of high integrity will never allow itself to be manipulated. Neither would a accompany practicing good corporate governance try to manipulate others.</li> </li></ul> |
| FEU-IAD will not make any management decision or engage in any other activity which could be reasonably construed to compromise their independence. Its ultimate responsibility is to provide the audit committee with the information necessary to execute its responsibilities. |  |   |   |
| The Internal Audit Manager reports to the Audit Committee, with the day-to-day operational and administrative oversight from the Chief Financial Officer (CFO).   |  |   |   |
| The IA Manager shall be authorized to communicate directly, and on his own initiative, to the President, the members of Audit Committee and the Board.  |  |   |   |
| The internal audit function should be subject to an independent review as   |  |   |   |

|   |  |  |  |
|---|--|--|--|
| and when required, carried out by independent professionals' e.g. external auditors, IIA. |  | outlets from whom to select .This list is reviewed on a yearly basis. Any addition to the approved list needs approval from the Risk Management Committee. |  |
|---|--|--|--|

- (h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employers of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The Chairman/ CEO and Corporate Governance Committee oversee the University's full compliance with SEC Code of Corporate Governance. The officers are the following:

**FEU Chairman/ CEO** – Lourdes R. Montinola

**Corporate Governance Committee:**

**Chairman** – Edilberto C. de Jesus

**Members:** Robert F. Kuan  
Gianna R. Montinola

## H. ROLE OF STAKEHOLDERS

- 1) Disclose the company's policy and activities relative to the following:

|  | Policy   | Activities  |
|--|--|---|
| Customers' welfare                         | Customer is king   | 1. Continuous improvement of facilities, curriculum & faculty<br>2. Adequate health & safety measures<br>3. Quality service |
| Supplier/contractor selection practice     | Choose the suppliers with best quality product, best price & after sales support | Bidding & canvassing  |
| Environmentally friendly value-chain       | Help preserve endangered species and the environment                             | Save the tamaraws, segregation of waste.  |
| Community interaction                      | School involvement in community affairs  | Outreach programs to barangays and inmates.   |
| Anti-corruption programmes and procedures? | No personal gifts  | Quality service with a SMILE  |
| Safeguarding creditors' rights             | Prompt payment   | Efficient processing of bills   |

- 2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?  
NONE

- 3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?



It is the policy of FEU to take all possible measures to ensure the health, safety, and protection of all employees/faculty/students from all health hazards arising in the campus in accordance with Philippine Occupational Health and Safety standards, OSHC, DOLE, DOH and other regulatory organizations. FEU is a smoke free campus and drug free work place.

FEU provides:

- Medical and dental benefits
- Attractive retirement benefits
- Educational scholarships to employees and dependents
- Safety shoes and prescribed uniform for identified positions
- Calamity Premium Pay and Hazard Pay
- Minimum of 30 days personnel leave credits a year; 7 days emergency leave
- Clothing allowance
- Recreational activities such sportsfests, summer outings, and fellowships

(b) Show data relating to health, safety and welfare of its employees.

- 25 Million per year for medical benefits alone.
- FEU contributes monthly to an employee's retirement funds the equivalent of the 20% of his basic pay.

(c) State the company's training and development programmes for its employees. Show the data.

FEU ensures the supply and development of competent and productive employees to achieve its strategies and objectives by providing its employees with opportunities for individual and group learning. Specifically, it supports the design and implementation of competency development programs to enable its employees to perform successfully in their roles, maximize their potential, and eventually enrich their personal and professional growth.

The University encourages the use of a broad range of competency development approaches that will enable employees to sustain or improve their performance, and contribute to desired results. These are reflected in its General and Technical Competencies Curricula which include classroom-based training and other learning interventions such as on-the-job training, developmental assignments, and self-study programs.

For SY 2012-2013, the University invested a total of Php 8,547,707.92 for its competency development programs. For SY 2013-2014, the total competency development budget is Php 7,824,402.00.

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.

FEU's Rewards shall support the achievement of its strategies and objectives.

It shall be a source of competitive advantage and a major driver in:

1. Sustaining **membership** of high performing and key contributing employees;
2. Motivating employees to achieve superior levels of quality **performance**;
3. Encouraging employees to develop desired **competencies**; and
4. Building employee **commitment** to the organization.

FEU Employees shall be rewarded for their performance and competency to motivate them to continuously produce desired outcomes and thereby drive the whole organization towards achieving the vision to be the University of choice in Asia.

FEU's Rewards Programs shall be anchored on the following guiding principles:

1. An employee can influence his pay level by the quality of his performance, at team and individual levels.
  2. An employee can influence growth and improvement of his pay through the attainment of required competencies.
  3. Fair returns are accorded to the employee considering FEU's performance and affordability as well as pay levels of comparator market groups.
  4. Teamwork is encouraged and rewarded in the achievement of FEU's strategies and plans.
  5. Rewards programs are communicated to all employees to inform, motivate and mobilize them towards performance.
- 4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behavior? Explain how employees are protected from retaliation.

FEU follows the following procedure:

1. Employee submits letter of complaint to management.
2. Based on letter of complaint, management conducts preliminary investigation and/or audit as needed.
3. Based on preliminary investigation and/or audit, HRD issues to the involved employee a notice to explain, indicating the offense and corrective action.
4. An Ad hoc Committee is created, depending on the explanation and evidence, to conduct further investigation and recommends appropriate corrective action.
5. The Ad Hoc Committee recommends to the University President the corrective action for the offense based on the Code of Conduct.
6. The President endorses the recommendation of the Ad Hoc Committee to the Legal Counsel for review.
7. HRD issues a notice of the decision and corresponding corrective action to the employee, copy furnished the Union.

To protect the employee who complained, the University conducts audits and preliminary investigation and uses the results as basis for the notice to explain.

## I. DISCLOSURE AND TRANSPARENCY

### 1) Ownership Structure

#### (a) Holding 5% shareholding or more

| Shareholder                               | Number of Shares | Percent  | Beneficial Owner         |
|---|------------------|----------|--------------------------|
| Seyrell Investment and Realty Corporation | 3,930,969        | 28.6278% | Dr. Lourdes R. Montinola |
| Sysmart Corporation                       | 2,955,115        | 21.5210% | Henry Sy                 |
| Desrey, Inc.                              | 1,098,720        | 8.0016%  | Dr. Lourdes R. Montinola |

| Name of Senior Management | Number of Direct shares | Number of Indirect shares / Through (name of record owner) | % of Capital Stock |
|---------------------------|-------------------------|--|--------------------|
|                           | N/A                     |  |                    |
|                           |                         |  |                    |
|                           |                         |  |                    |
|                           |                         |  |                    |
| <b>TOTAL</b>              |                         |  |                    |

2) Does the Annual Report disclose the following:

|   |     |
|---|-----|
| Key risks   | yes |
| Corporate objectives  | yes |
| Financial performance indicators  | yes |
| Non-financial performance indicators  | yes |
| Dividend policy   | yes |
| Details of whistle-blowing policy   | yes |
| Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners | yes |
| Training and/or continuing education programmes attended by each director/commissioner  | yes |
| Number of board of directors/commissioners meetings held during the year  | yes |
| Attendance details of each director/commissioner in respect of meetings held  | yes |
| Details of remuneration of the CEO and each member of the board of directors/commissioners  | yes |

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

3) External Auditor's fee

| Name of auditor       | Audit Fee                             | Non-audit Fee |
|-----------------------|---------------------------------------|---------------|
| Punongbayan & Araullo | ₱920,000.00plus 12% VAT (2011 – 2012) | NONE          |
| Punongbayan & Araullo | 880,000.00 plus 12% VAT (2012 – 2013) | NONE          |

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

- Email
- Registered Mail
- Courier
- Investor's website

5) Date of latest release of audited financial report: July 15, 2012

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

|  |     |
|--|-----|
| Business operations  | yes |
| Financial statements/reports (current and prior years)                             | yes |
| Materials provided in briefings to analysts and media                              | yes |
| Shareholding structure   | yes |
| Group corporate structure  | yes |
| Downloadable annual report   | yes |
| Notice of AGM and/or EGM   | yes |
| Company's constitution (company's by-laws, memorandum and articles of association) | yes |

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

7) **Disclosure of RPT**

| RPT                              | Relationship | Nature                    | Value                            |
|----------------------------------|--------------|---------------------------|----------------------------------|
| FERN Realty Corp.                | Subsidiary   | Rentals                   | P73,211,706.00                   |
| East Asia Educational Foundation | Affiliates   | Rentals<br>Management fee | P52,984,680.00<br>P55,358,978.00 |
| EACCI                            | Subsidiary   | Advances                  | P 7,728,793.00                   |

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

Dealings falling under the category of related party transactions should be approved by the Board of Trustees and such should, at least be:

1. Above board.
2. Transparent
3. Arm's length
4. Non-bias
5. Without special favor
6. Not disadvantageous to the company

In other words, it must be to the best interest of the company as a whole.

**J. RIGHTS OF STOCKHOLDERS**

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

|                        |          |
|------------------------|----------|
| <b>Quorum Required</b> | Majority |
|------------------------|----------|

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

|                    |   |
|--------------------|---|
| <b>System Used</b> | By Vote   |
| <b>Description</b> | Approved & endorsed by Excom, ratified by the Board and in certain cases, also ratified by the stockholders |

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

| Stockholders' Rights under<br>The Corporation Code                   | Stockholders' Rights <u>not</u> in<br>The Corporation Code |
|--|--|
| Right to vote on all matters that require their consent or approval; | NONE   |
| Pre-emptive right to all stock issuances of the corporation;         |  |

|   |  |
|---|--|
| Right to inspect corporate books and records; |  |
| Right to information;                         |  |
| Right to dividends; and                       |  |
| Appraisal right.                              |  |

#### Dividends

| Declaration Date | Record Date   | Payment Date  |
|------------------|---------------|---------------|
| June 19, 2012    | July 04, 2012 | July 18, 2012 |
| Dec. 18, 2012    | Jan. 08, 2013 | Jan. 23, 2013 |

#### (d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

| Measures Adopted   | Communication Procedure                     |
|--|---|
| Sending notice of annual stockholders meeting & definitive information statements to all stockholders. | By courier & mail                           |
| Open forum during annual stockholders meeting  | Person to person question and answer method |

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
  - a. Amendments to the company's constitution
  - b. Authorization of additional shares
  - c. Transfer of all or substantially all assets, which in effect results in the sale of the company

Individual notice/invitation detailing the date, place, time, purpose and agenda of the meeting is sent to all stockholders.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up? The company observes a minimum of 15 business days prior to the annual stockholders meeting.
  - a. Date of sending out notices: August 3, 2012 (last year)
  - b. Date of the Annual/Special Stockholders' Meeting: August 25, 2012 (last year)
4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

A minority stockholder asked if there was a specific budget committee monitoring and controlling the expenses of the university. Mr. Juan Miguel R. Montinola, Chief Finance Officer (CFO), explained that everything that everything is budgeted at the beginning of the school year. Projects with the approved budget are the only ones that may proceed accordingly.

5. Result of Annual/Special Stockholders' Meeting's Resolutions

| Resolution  | Approving | Dissenting | Abstaining |
|---|-----------|------------|------------|
| (1). <b>RESOLVED</b> , That the reading of the minutes of the regular annual meeting of stockholders held on 27 August 2011 be dispensed with and said minutes be approved as presented.  | Approved  | None       | None       |
| (2). <b>RESOLVED</b> , That the Academic Report of the President, Far Eastern University, for the fiscal year 2011-2012 be, as it is hereby, noted.   | Approved  | None       | None       |
| (3). <b>RESOLVED</b> , That a vote of thanks and appreciation for President Lydia B. Echauz be move for her very valuable contribution to the success of Far Eastern University during her tenure as President.   | Approved  | None       | None       |
| (4). <b>RESOLVED</b> , That the Annual Report of the Chair, Board of Trustees of Far Eastern University, Inc. covering the operations of fiscal year 2011-2012 be approved, ratified, and confirmed.  | Approved  | None       | None       |
| (5). <b>RESOLVED</b> , That the approval of the amendment of Section III of the By-Laws of the Corporation to read as follows:<br>Section III – Meetings: All meetings of the stockholders of the Corporation shall be held at the office of the Corporation as above defined. All meetings of the Board of Trustees of the Corporation shall be held at the office of the Corporation as above defined or in such places as may be designated from time to time by the Chairman of the Board or by at least a majority of the Board of Trustees. | Approved  | None       | None       |

|  |          |      |      |
|--|----------|------|------|
| (6). <b>RESOLVED</b> , That the acts of the officers and Trustees of Far Eastern University, Inc. in the furtherance of the matters covered by the annual report for the fiscal year 2011-2012 be approved, ratified and confirmed.  | Approved | None | None |
| (7). <b>RESOLVED</b> , That there being only nine (9) nominees, all votes be cast, as they are hereby cast equally, and that the nine (9) nominees be henceforth declared elected members of the Board of Trustees of Far Eastern University, Inc. for the fiscal year 2012-2013 or until their successors are duly elected and qualified. | Approved | None | None |
| (8). <b>RESOLVED</b> , That the firm Punongbayan and Araullo, be appointed External Auditors of Far Eastern University, Inc. for the fiscal year 2012-2013.  | Approved | None | None |
| (9). <b>RESOLVED</b> , That a vote of appreciation for the late Dr. Renato L. Paras for his great contribution to the success of FEU.  | Approved | None | None |
| (10) <b>RESOLVED FINALLY</b> , That a vote of appreciation be extended to the Board of Trustees, the officials, the faculty, the employees, the alumni and the students for a job well done.   | Approved | None | None |

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:  
August 25, 2012

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

| Modifications | Reason for Modification |
|---------------|-------------------------|
| NONE          | N.A                     |

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

| Type of Meeting | Names of Board members / Officers present | Date of Meeting | Voting Procedure (by poll, show of hands, etc.) | % of SH Attending in Person | % of SH in Proxy | Total % of SH attendance |
|-----------------|---|-----------------|---|-----------------------------|------------------|--------------------------|
| Annual          | 10  | 08-25-12        | Proxy votes                                     | 3.58%                       | 86%              | 89.58%                   |
| Special         | N/A                                       | N/A             | N/A   | N/A                         | N/A              | N/A                      |

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs? No, but external auditors are present during ASM

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares. YES

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

|                                     | Company's Policies  |
|-------------------------------------|---|
| Execution and acceptance of proxies | Executed by stockholder and accepted by the corporate secretary.                  |
| Notary                              | Not required  |
| Submission of Proxy                 | At least 24 hours before the time set for the meeting as required by the By-Laws. |
| Several Proxies                     | Allowed   |
| Validity of Proxy                   | 1 year  |
| Proxies executed abroad             | Allowed subject to validation   |
| Invalidated Proxy                   | Not counted   |
| Validation of Proxy                 | Against signature card or personally signed                                       |
| Violation of Proxy                  | Not counted   |

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

| Policies                                   | Procedure                              |
|--|--|
| 15 business days before the annual meeting | Sending thru courier & registered mail |



(i) Definitive Information Statements and Management Report

|  |  |
|--|--|
| <b>Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials</b>  | 1,480  |
| <b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners</b> | August 3, 2012                                   |
| <b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders</b>                                  | August 3, 2012                                   |
| <b>State whether CD format or hard copies were distributed</b>   | Hard Copies                                      |
| <b>If yes, indicate whether requesting stockholders were provided hard copies</b>  | Yes, Stockholders were provided with hard copies |

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

|   |     |
|---|-----|
| Each resolution to be taken up deals with only one item.  | yes |
| Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election. | Yes |
| The auditors to be appointed or re-appointed.   | Yes |
| An explanation of the dividend policy, if any dividend is to be declared.   | yes |
| The amount payable for final dividends.   | Yes |
| Documents required for proxy vote.  | yes |

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

| <b>Policies</b>  | <b>Implementation</b> |
|--|-----------------------|
| Right to vote on all matters that require their consent or approval; | Full implementation   |
| Pre-emptive right to all stock issuances of the corporation;         | Full implementation   |
| Right to inspect corporate books and records;                        | Full implementation   |
| Right to information;  | Full implementation   |
| Right to dividends; and  | Full implementation   |
| Appraisal right  | Full implementation   |

(b) Do minority stockholders have a right to nominate candidates for board of directors? YES

#### K. INVESTORS RELATIONS PROGRAM

- 1) Discuss the company's external and internal communications policies and how frequently they are reviewed. The company believes in transparency as an indispensable component of good governance. As such, important matters affecting stakeholders are made known to them by the company's designated offices. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee. The Executive Committee reviews and approves major company announcements.
- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

|                                 | Details   |
|---------------------------------|---|
| (1) Objectives                  | To showcase the company's financial strength (stability, profitability & liquidity) and operational efficiency through good corporate governance                              |
| (2) Principles                  | Good governance through participative leadership and transparency   |
| (3) Modes of Communications     | <ul style="list-style-type: none"><li>• Reports &amp; disclosures to SEC &amp; PSE</li><li>• Investor relations website</li><li>• Annual report to all stockholders</li></ul> |
| (4) Investors Relations Officer | Mr. Juan Miguel R. Montinola  |

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets? Acquisition of corporate control in capital markets, and extraordinary transactions such as merges, and sales of substantial portions of corporate assets, if any, should be approved by the Executive Committee and ratified by the Board of Trustees.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

There are 9 members of the Board of Trustees and 3 are independent directors. The 3 independent directors participate in the discussions, deliberations and approval of such transactions. A good diligence audit shall also be conducted by our external auditors to guide the board of its assessment.

#### L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

| Initiative               | Beneficiary                   |
|--------------------------|-------------------------------|
| Special Scholarship      | Poor but deserving students   |
| Save the Tamaraw Project | Endangered species – Tamaraw  |
| Adopt a School Program   | Public Schools                |
| Donation                 | Charitable Institutions       |
| Outreach Program         | Correctional facility inmates |

#### M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

|                      | Process         | Criteria  |
|----------------------|-----------------|---|
| Board of Directors   | Self evaluation | 1. Attendance<br>2. Participation and conduct<br>3. Conflict of interest<br>4. Business knowledge |
| Board Committees     | Self evaluation |   |
| Individual Directors | Self evaluation |   |
| CEO/President        | Self evaluation |   |

#### N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

| Violations   | Sanctions  |
|--|--|
| 1. Willful violations that govern securities and banking activities.   | Permanent disqualification as director   |
| 2. Fraudulent acts   | Permanent disqualification as director   |
| 3. Independent trustee who became an officer, employee or consultant of the same corporation.  | Permanent disqualification as director   |
| 4. Trustee who is judicially declared as insolvent   | Permanent disqualification as director   |
| 5. Conviction by final judgment of any crime punishable by imprisonment of more than 6 years.  | Permanent disqualification   |
| 6. Refusal to comply with disclosures request of the Securities Regulation Code and its implementing rules and regulation.                               | Temporary disqualification which shall be in effect as long as the refusal persists.             |
| 7. Dismissal or termination for cause as trustee of any corporation.   | Temporary disqualification which shall be in effect as long as he has not cleared of the offense |
| 8. Independent trustee whose beneficial equity ownership in the corporation, its subsidiaries and affiliates exceeds 2% of the subscribed capital stock. | Temporary disqualification which shall be in effect as long as he exceeds the limit.             |

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_ on \_\_\_\_\_, 20\_\_.

#### SIGNATURES

\_\_\_\_\_  
**LOURDES R. MONTINOLA**  
**Chairman of the Board**

\_\_\_\_\_  
**LOURDES R. MONTINOLA**  
**Chief Executive Officer**

\_\_\_\_\_  
**EDILBERTO C. DE JESUS**  
**Independent Director**

\_\_\_\_\_  
**ROBERT F. KUAN**  
**Independent Director**

\_\_\_\_\_  
**GLENN Z. NAGAL**  
**Compliance Officer**

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_, affiant(s) exhibiting to me their \_\_\_\_\_, as follows:

| <u>NAME/NO.</u>                   | <u>DATE OF ISSUE</u> | <u>PLACE OF ISSUE</u> |
|-----------------------------------|----------------------|-----------------------|
| Lourdes R. Montinola/10675537     | January 25, 2013     | Makati City           |
| Edilberto C. De Jesus/CCII3976092 | January 30, 2013     | Quezon City           |
| Robert F. Kuan/15873753           | February 13, 2013    | Manila                |
| Glenn Z. Nagal/07161598           | January 3, 2013      | Manila                |

#### NOTARY PUBLIC

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Series of \_\_\_\_\_