

30 May 2017

**THE PHILIPPINE STOCK EXCHANGE, INC.**

Disclosure Department  
4<sup>th</sup> Floor, Philippine Stock Exchange Centre  
PSE Centre, Exchange Road  
Ortigas Center, Pasig City

Attention: **MR. JOSE VALERIANO B. ZUÑO III**  
OIC - Head, Disclosure Department

Subject: Revised Manual on Corporate Governance

Gentlemen:

We submit herewith the Revised Manual on Corporate Governance of Paxys, Inc. in compliance with SEC Memorandum Circular No. 19, Series of 2016 dated 22 November 2016.

We trust that you will find the attached document in order.

Very truly yours,

**PAXYS, INC.**

By:

  
**MARK DAVID P. MARTINEZ**  
Compliance Officer

30 May 2017

**SECURITIES AND EXCHANGE COMMISSION**

G/F Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City 1307



Attention: **Atty. Justina F. Callangan**  
Director, Corporate Governance and Finance Department

Subject: Revised Manual on Corporate Governance

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Very truly yours,

**PAXYS, INC.**

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**MARK DAVID P. MARTINEZ**  
Compliance Officer



**PAXYS, INC.**  
**REVISED MANUAL ON CORPORATE GOVERNANCE**

The Board of Directors, Management, and employees of Paxys, Inc. (the “Corporation”) commit themselves to the principles and best practices contained in this Revised Manual on Corporate Governance (the “Manual”). The Corporation and its operating subsidiaries acknowledge that this Manual shall serve as guidelines in attaining corporate goals and conducting business.

The objective of this Manual is to institutionalize the principles of corporate governance by taking the necessary steps in promoting awareness of these principles throughout the organization. The Board of Directors, Management, and employees believe that good corporate governance is a necessary component of sound strategic business management.

**Article 1. Definition of Terms**

- a. “Code” refers to The Code of Corporate Governance for Publicly-Listed Companies promulgated by the Securities and Exchange Commission on 22 November 2016 through SEC Memorandum Circular No. 19 Series of 2016.
- b. “Corporate Governance” refers to the framework of rules, systems, and processes in the Corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders including, among others, customers, employees, suppliers, financiers, government, and community in which it operates.
- c. “Board of Directors” or “Board” refers to the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties.
- d. “Exchange” refers to an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities.
- e. “Management” refers to the body given the authority by the Board of Directors to implement the policies it has laid down in conducting the Corporation’s business.
- f. “Independent Director” refers to a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.
- g. “Executive Director” refers to a director who is also the head of a department or unit of the Corporation or performs any work related to its operation.
- h. “Non-Executive Director” refers to a director who is not the head of a department or unit of the Corporation nor performs any work related to its operation.
- i. “Non-Audit Work” refers to the other services offered by an external auditor to a Corporation that are not directly related and relevant to its statutory audit

functions such as accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor.

- j. “Internal Control” refers to the system established by the Board of Directors and Management for the accomplishment of the Corporation's objectives, the efficient operation of its business, the reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules.
- k. “Internal Control System” refers to the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the Corporation is exposed.
- l. “Internal Audit” refers to an independent and objective assurance activity designed to add value to and improve the Corporation's operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control, and governance processes.
- m. “Internal Audit Department” refers to a department or unit of the Corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the Corporation's operations.
- n. “Internal Auditor” refers to the highest position in the Corporation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results.
- o. “Commission” refers to the Securities and Exchange Commission (SEC).

## **Article 2. Interpretation**

All doubts or questions that may arise in the interpretation or application of this Manual shall be resolved in favor of promoting transparency, accountability, and fairness to the stockholders and investors of the Corporation.

## **Article 3. Board Governance**

The Board of Directors is primarily responsible for governance of the Corporation. The Board shall provide an independent check on Management by setting policies for accomplishing corporate objectives.

### **A. Composition of the Board**

The Board shall be composed of such number of directors as provided in the Corporation's Articles of Incorporation subject to their election and qualification. The Board shall disclose a formal and transparent board nomination and election policy that shall include how it accepts nominations from minority shareholders and reviews nominated

candidates. This policy shall also include an assessment of the effectiveness of the Board's processes and procedures in the nomination, election, or replacement of a director. In addition, its process of identifying the quality of directors shall be aligned with the strategic direction of the Corporation. The Board shall ensure that its directors possess the necessary qualifications and none of the disqualifications for a director to hold the position.

- i. As much as practicable, the Board shall have at least three (3) Independent Directors or such number of Independent Directors that constitutes at least one-third (1/3) of the members of the Board, whichever is higher. Considering the requirements of the Corporation's business, size of the organization, risk profile, and complexity of operations, the Board may have a lesser number of Independent Directors but not lower than the minimum number of Independent Directors required by existing laws, and rules and regulations of the Commission.
- ii. An Independent Directors shall serve for a maximum cumulative term of nine (9) years. Thereafter, the Independent Director shall be perpetually barred from re-election as such in the Corporation. In any case, such Independent Director may qualify for nomination and election as a regular director. In case the Corporation intends to retain an Independent Director who has served for nine (9) years, the Board shall provide meritorious justification/s and seek shareholders' approval.
- iii. The Board membership may be a combination of Executive Directors and Non-Executive Directors (which include Independent Directors) in order that no single director or small group of directors can dominate the decision-making process. The Non-Executive Directors shall comprise at least a majority of the entire Board membership. The Non-Executive Directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

#### B. Multiple Board Seats

The Board may consider the adoption of guidelines on the number of directorships that its members can hold in stock and non-stock corporations. The optimum number should take into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities.

The Non-Executive Directors of the Board should concurrently serve as directors to a maximum of five (5) publicly-listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the Corporation. In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities to the boards they serve should not be compromised. In all cases, a non-executive director shall notify the Board before accepting a directorship in another company.

#### C. The Chairman and Chief Executive Officer (CEO)

The roles of Chairman and CEO should, as much as practicable, be separate to foster an appropriate balance of power, increased accountability, and better capacity for independent decision-making by the Board. A clear delineation of functions should be made between the Chairman and CEO upon their election.

The duties and responsibilities of the Chairman in relation to the Board may include, among others, the following:

- i. ensure that the meetings of the Board are held in accordance with the by-laws or as the Chairman may deem necessary;
- ii. supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors; and
- iii. maintain qualitative and timely lines of communication and information between the Board and Management.

If the positions of Chairman and CEO are held by the same person, the proper checks and balances should be laid down to ensure that the Board gets the benefit of independent views and perspectives. Moreover, the Board shall designate a lead director among the Independent Directors if the positions of the Chairman of the Board and the CEO are held by one person.

The lead Independent Director shall preside over the meetings of the Non-Executive Directors, who shall have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any of Executive Directors present. The purpose of these meetings is to ensure that proper checks and balances are in place within the Corporation.

#### D. Qualifications of Directors

The Board shall be composed of directors with a collective working knowledge, experience or expertise that are relevant to the Corporation's business as an investment holding company. The Board shall ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable the Board to fulfill its duties and respond to the Corporation's requirements based on the evolving business environment and strategic direction.

In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, and SEC rules and regulations, the Board may provide for additional qualifications which include, among others, the following:

- i. college education or equivalent academic degree;
- ii. practical understanding of the business of the Corporation;
- iii. membership in good standing in relevant industry, business, or professional organizations; and
- iv. previous business experience.

#### E. Board Diversity

The Board shall have a policy on board diversity. A diverse board promotes different perspectives and ideas to achieve optimal decision-making. Board diversity may refer to distinctions in age, ethnicity, culture, skills, competence, knowledge, gender, among other things. The Corporation is committed to the following principles on diversity:

- i. Recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in the attainment of its strategic objectives and maintaining prudent corporate governance.
- ii. All Board appointments are made on merit in the context of skill, experience, independence and knowledge. Candidates will be considered against objective criteria, which the Board as a whole requires to be effective.

#### F. Orientation and Training

The Corporation shall provide an orientation program for new directors. The orientation program will include overviews of the Corporation's vision and mission, investment strategy, responsibilities of a director, the meeting schedules of the Board and its committees, corporate governance, and other matters that will assist them in discharging their duties.

Existing directors will be required to attend an annual four (4)-hour continuing training on corporate governance and other relevant updates. The annual corporate governance training shall be conducted by an SEC-accredited service provider.

#### G. Nomination and Election of Directors

Prior to conducting the Annual Shareholders' Meeting of the Corporation, the Corporate Secretary shall set a reasonable period for the submission of nominations of candidates for election to the Board of Directors. All nominations for directors submitted in writing to the Corporate Secretary within such nomination period shall be valid. A stockholder of record, including a minority stockholder, entitled to notice of and to vote at the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated as a director.

The Corporate Governance Committee shall convene, deliberate, pre-qualify, and verify the qualifications of all persons nominated for election to the Board of Directors from the pool of candidates submitted by the nominating stockholders. The Corporate Governance Committee shall prepare a Final List of Candidates after considering the qualifications and disqualifications set forth in the succeeding sections of this Manual. Said list shall contain all the information about these nominees. Only nominees qualified by the Corporate Governance Committee and whose names appear on the Final List of Candidates shall be eligible for election as directors. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. The composition and other functions of the Corporate Governance Committee are provided for in section 3 (N) ii of this Manual.

Based on the Final List of Candidates, directors are elected by shareholders individually. The vote required for the election of directors is majority of the outstanding capital stock. The election of directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him, for as many persons as there are to be elected as directors, or he may cumulate or give to one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of directors to be elected.

## H. Disqualification of Directors

- i. The following shall be grounds for the permanent disqualification of a director:
  - a. 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;
  - b. Any person who, by reason of misconduct, 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 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;

- c. 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;
- d. Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;
- e. Any person earlier elected as independent director who becomes an officer, employee or consultant of the Corporation;

- f. Any person judicially declared as insolvent;
  - g. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of facts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in subparagraphs (a) to (e) above; and
  - h. 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.
- ii. The Board may provide for the temporary disqualification of a director for any of the following reasons:
- a. 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.
  - b. Absence in more than fifty percent (50%) 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 the succeeding election.
  - c. Dismissal or termination for cause as director of any corporation covered by this Code. 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.
  - d. If the beneficial equity ownership of an independent director in the Corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.
  - e. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the qualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

## I. Responsibilities, Duties, and Functions of the Board

### i. General Responsibility

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 other stakeholders. In

fulfilling its responsibilities, the Board members shall act on a fully informed basis, in good faith, and with due diligence and care.

The Board should formulate the Corporation's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.

The Board shall oversee the development of and approve the Corporation's business objectives and strategy, and monitor their implementation, in order to sustain the Corporation's long-term viability and strength.

ii. Duties and Functions

To ensure a high standard of best practice for the Corporation and its stockholders and other stakeholders, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- a. Create a Board Charter that formalizes and clearly states its roles, responsibilities, and accountabilities in carrying out its fiduciary duties. The Board Charter shall serve as a guide to the directors in the performance of their functions and should be publicly available and posted in the Corporation's website.
- b. Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies; appoint competent, professional, honest and highly-motivated management officers; and adopt an effective succession planning program for directors, key officers, and Management to ensure growth and a continued increase in shareholder value.
- c. Provide sound strategic policies and guidelines to the Corporation on major capital expenditures; establish programs that can sustain its long-term viability and strength; and periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
- d. Ensure the Corporation's faithful compliance with all applicable laws, regulations and best business practices.
- e. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Corporation. If feasible, the Corporation's CEO or chief financial officer shall exercise oversight responsibility over this program. The Board shall establish an Investor Relations Office (IRO) to ensure constant engagement with its shareholders. Subject to the requirements of the Corporation's business, size of the organization, and complexity of operations, the Board may decide to appoint a separate Investor Relations Officer. Otherwise, the role of Investor Relations Officer shall be undertaken by the Corporate Information Officer. The Investor Relations Officer or the Corporate Information Officer shall be present at all shareholders' meetings.

- f. Identify the Corporation's stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely, and effective communication with them. The Board shall establish policies, programs, and procedures that encourage employees to actively participate in the realization of the Corporation's goals in its governance.
- g. Adopt a system of checks and balances within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness.
- h. Oversee that a sound enterprise risk management (ERM) framework is in place to effectively identify, monitor, assess, and manage key business risks to enable the Corporation to anticipate and prepare for possible threats to its operational and financial viability. The risk management framework should guide the Board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.
- i. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Corporation and its parent company, joint venture, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.
- j. Constitute an Audit Committee and such other committees that the Board deems necessary to assist the Board in the performance of its duties and responsibilities. All established committees shall have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources, and other relevant information. The Charters shall provide the standards for evaluating the performance of the Committees. The Committee charters shall also be fully disclosed in the Corporation's website.
- k. Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its stockholders, and the Corporation and third parties, including the regulatory authorities.
- l. Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.
- m. Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules, and regulations.

- n. Appoint a Compliance Officer who shall be a separate individual from the Corporate Secretary, and shall have the rank of at least Senior Vice President or an equivalent position with adequate stature and authority in the Corporation. In making such an appointment, the Board will consider the requirements of the Corporation's business, size of the organization, and complexity of operations. The Compliance Officer shall not be a member of the Board of Directors. The Compliance Officer shall annually attend a training on corporate governance. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.
- o. Establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders. The Board shall adopt a transparent framework and process that allow stakeholders to communicate with the company and to obtain redress for the violation of their rights.
- p. Set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct. Further, the Board shall disseminate the policy and program to employees across the organization through trainings to embed them in the Corporation's culture.
- q. Establish a suitable framework for whistleblowing that allows employees to freely to communicate their concerns about illegal and unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns. The Board shall be conscientious in establishing the framework as well as in supervising and ensuring its enforcement.
- r. Recognize and place importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the Corporation to grow its business, while contributing to the advancement of the society where it operates.

#### J. Specific Duties and Responsibilities of a Director

A director's office is one of trust and confidence. A director should act in the best interest of the Corporation in a manner characterized by transparency, accountability, and fairness. A director should also exercise leadership, prudence, and integrity in directing the Corporation towards sustained progress. The following norms of conduct should be observed:

- i. Conduct fair business transactions with the Corporation, and ensure that his personal interest does not conflict with the interests of the Corporation. The basic principle to be observed is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. A director should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position. A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the Corporation, or stands to acquire or gain financial advantage at the expense of the Corporation.

- ii. Devote the time and attention necessary to properly and effectively perform his duties and responsibilities. A director should devote sufficient time to familiarize himself with the Corporation's business. A director should be constantly aware of and knowledgeable with the Corporation's operations to enable him to meaningfully contribute to the Board's work. A director should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation.
- iii. Act judiciously. Before deciding on any matter brought before the Board, a director should carefully evaluate the issues and, if necessary, make inquiries and request clarification.
- iv. Exercise independent judgment. A director should view each problem or situation objectively. If a disagreement with other directors arises, he should carefully evaluate and explain his position. A director should not be afraid to take an unpopular position. A director should support plans and ideas that he thinks are beneficial to the Corporation.
- v. Have a working knowledge of the statutory and regulatory requirements that affect the Corporation, including its articles of incorporation and by-laws, the rules and regulations of the Commission and, where applicable, the requirements of relevant regulatory agencies. A director should also keep abreast with industry developments and business trends in order to promote the Corporation's competitiveness.
- vi. Observe confidentiality. A director should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. A director should not reveal confidential information to unauthorized persons without the authority of the Board.

#### K. Internal Control Responsibilities of the Board

The Board shall oversee that an appropriate and effective internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, Board members and shareholders. The Board shall also approve the Internal Audit Charter.

The control environment of the Corporation consists of (a) the Board which ensures that the Corporation is properly and effectively managed and supervised; (b) a Management that actively manages and operates the Corporation in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management reporting systems; and (d) an independent audit mechanism to monitor the adequacy and effectiveness of the Corporation's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

- i. The minimum internal control mechanisms for the performance of the Board's oversight responsibility may include:
  - a. Definition of the duties and responsibilities of the CEO who is ultimately

- accountable for the Corporation's organizational and operational controls;
- b. Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
  - c. Evaluation of proposed senior management appointments;
  - d. Selection and appointment of qualified and competent management officers; and
  - e. Review of the Corporation's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.
- ii. The scope and particulars of the systems of effective organizational and operational controls may differ among corporations depending on, among others, the following factors: nature and complexity of the business and the business culture, volume, size and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.
  - iii. The Corporation may establish an internal audit system that can reasonably assure the Board, Management, and stockholders that its key organizational and operational controls are faithfully complied with. The internal audit system may include the establishment of an internal audit process in the subsidiaries to support the internal audit requirements of the Corporation. The Board may appoint an Internal Auditor to perform the audit function, and may require him to report to a level in the organization that allows the internal audit activity to fulfill its mandate. The Internal Auditor shall be guided by the International Standards on Professional Practice of Internal Auditing.
  - iv. Depending on the requirements of the Corporation's business, size of the organization, risk profile, and complexity of operations, the Board may appoint a qualified Chief Audit Executive (CAE). The CAE shall oversee and be responsible for the internal audit activity of the organization, including any portion that is outsourced to a third-party service provider. The CAE shall directly report functionally to the Audit and Risk Management Committee and administratively to the Chief Executive Officer. In case of a fully outsourced internal audit activity, the CAE, or in the absence of a CAE, a qualified senior management personnel, should be assigned the responsibility for managing the fully-outsourced internal audit activity.
  - v. Subject to the requirements of the Corporation's business, size of the organization, risk profile, and complexity of operations, the Corporation shall (a) have a separate risk management function to identify, assess and monitor key risk exposures; and (b) have a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources, and support to fulfill his/her responsibilities. Otherwise, the risk management function shall be assumed by the Audit and Risk Management Committee. The CRO shall directly report functionally to the Audit and Risk Management Committee and administratively to the Chief Executive Officer.

## L. Board Meetings and Quorum Requirement

The directors should attend its regular and special meetings of the Board, Committees, and Shareholders in person or through teleconferencing conducted in accordance with the rules and regulations of the Commission, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, the director should review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

Independent directors should always attend Board meetings. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one (1) independent director in all its meetings.

To monitor the directors' compliance with the attendance requirements, corporations shall submit to the Commission, on or before January 30 of the following year, a sworn certification about the directors' record of attendance in Board meetings. The certification may be submitted through SEC Form 17-C or in a separate filing.

## M. Remuneration of Directors and Officers

The levels of remuneration of the Corporation should be sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive directors may be structured or be based on corporate and individual performance.

Corporations may establish formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration levels for individual directors and officers depending on the particular needs of the Corporation. No director should participate in deciding on his remuneration.

The Corporation's annual reports and information and proxy statements shall include a clear, concise, and understandable disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year.

To protect the funds of a corporation, the Commission may, in exceptional cases, e.g. when a corporation is under receivership or rehabilitation, regulate the payment of the compensation, allowances, fees and fringe to its directors and officers.

## N. Board Committees

The Board shall constitute the proper committees to assist it in good corporate governance.

- i. The Audit and Risk Management Committee shall consist of at least three (3) Non-Executive Directors. All of the members of the Committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, and finance. The Chairman should be an independent director. The Chairman should not be the Chairman of the Board or of any other committees. The Audit and Risk Management Committee shall have the following functions:

- a. 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;
- b. Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal, and other risks of the Corporation. This function shall include regular receipt from Management of information on risk exposures and risk management activities;
- c. Perform oversight functions over the Corporation's internal and external auditors. It should ensure that the internal and external auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- d. Review the annual internal audit plan to ensure its conformity with the objectives of the Corporation. The plan shall include the audit scope, resources and budget necessary to implement it;
- e. Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination of more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- f. Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- g. Monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security;
- h. Review the reports submitted by the internal and external auditors;
- i. Review the quarterly, half-year, and annual financial statements before their submission to the Board, with particular focus on any change/s in accounting policies and practices; major judgmental areas; significant adjustments resulting from the audit; going concern assumptions; compliance with accounting standards; and compliance with tax, legal and regulatory requirements.
- j. Coordinate, monitor and facilitate compliance with laws, rules, and regulations;
- k. 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 Corporation's annual report;

- l. 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 and Risk Management Committee. The Audit and Risk Management Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.
- m. Responsible for oversight of the Corporation's Enterprise Risk Management system to ensure its functionality and effectiveness. Subject to the requirements of the Corporation's business, size of the organization, risk profile, and complexity of operations, the Board may decide to establish a separate Risk Oversight Committee to take charge of this function.
  - ii. The Board shall also organize a Corporate Governance Committee composed of at least three (3) members, two (2) of whom shall be Independent Directors, including the Committee Chairman. The Committee members shall have adequate and competent understanding of corporate governance principles and practices, in addition to thorough knowledge of the Corporation's business and industry in which it operates. The Corporate Governance Committee shall have the following functions:
    - a. Assist the Board in performing its corporate governance responsibilities including the functions that were formerly assigned to the Nomination and Remuneration Committee.
    - b. Review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval.
    - c. Assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.
    - d. Establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy, and the business environment in which it operates.
    - e. Review and recommend Board approval of material or significant related party transactions, particularly those which pass certain thresholds of materiality, which guarantee fairness and transparency of the transactions. The policy shall encompass all entities within the group.

Subject to the requirements the Corporation's business, size of organization, risk profile, and complexity of operations, the Board may establish a Related Party Transaction Committee which should be tasked with reviewing all material related party transactions of the Corporation. This Committee shall be composed of at least three (3) Non-Executive Directors, (2) two of whom should be independent, including the Committee Chairman. In the absence of a separate committee, the task of reviewing related party transactions shall be included among the functions of the Corporate Governance Committee.

## O. The Corporate Secretary

The Board shall be assisted by the Corporate Secretary, who is an officer of the Corporation. Unless otherwise decided by the Board, the Corporate Secretary shall be a separate individual from the Compliance Officer and the Corporate Secretary shall not be a member of the Board of Directors. In deciding on these matters, the Board shall take into account, among others, the requirements of the Corporation's business, size of the organization, and complexity of operations.

The Corporate Secretary is primarily responsible to the Corporation and its shareholders, and not to the Chairman or President of the Corporation. His loyalty to the mission, vision and specific business objectives of the corporate entity come with his duties. The Corporate Secretary shall annually attend a training on corporate governance.

The Corporate Secretary should be a Filipino citizen and a resident of the Philippines. The Corporate Secretary shall have the following duties:

- i. Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Corporation; such responsibility may be delegated to the legal department of the Corporation.
- ii. Be loyal to the mission, vision, and objectives of the Corporation;
- iii. Work fairly and objectively with the Board, Management and stockholders and other stakeholders;
- iv. Have appropriate administrative and interpersonal skills;
- v. If he is not at the same time the Corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- vi. Have a working knowledge of the operations of the Corporation;
- vii. Inform the members of the Board, in accordance with the by-laws of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- viii. Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so;
- ix. Ensure that all Board procedures, rules and regulations are strictly followed by the members; and
- x. If he is also the Compliance Officer, perform all the duties and responsibilities of the said officer as provided for in this Code.

## P. The Compliance Officer

The Board shall appoint a Compliance Officer who shall report directly to the Chairman of the Board. The Compliance Officer shall perform the following duties:

- i. Monitor compliance by the Corporation with this Code and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation;
- ii. Appear before the Commission when summoned in relation to compliance with this Code; and

- iii. Issue a certification every January 30<sup>th</sup> of the year on the extent of the Corporation's compliance with this Code for the completed year and, if there are any deviations, explain the reason for such deviation.

#### **Article 4. Adequate and Timely Information**

To enable the members of the Board to properly fulfill their duties and responsibilities, Management should provide them with complete, adequate, and timely information about the matters to be taken in their meetings.

Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and the Corporate Secretary.

The information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts, and internal financial documents. The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the Corporation's expense.

#### **Article 5. Accountability and Audit**

A. The Board is primarily accountable to the stockholders. It should provide them with a balanced and comprehensible assessment of the Corporation's performance, position, and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law. Thus, it is essential that Management provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management should formulate, under the supervision of the Audit and Risk Management Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- i. The extent of its responsibility in the preparation of the financial statements of the Corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
- ii. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Corporation for the benefit of all stockholders and other stakeholders;
- iii. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
- iv. The Corporation should consistently comply with the financial reporting requirements of the Commission;
- v. The Audit and Risk Management Committee Charter shall include the Committee's responsibility on assessing the integrity and independence of external auditor and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements.

- vi. The Charter shall also contain the Audit and Risk Management Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis. The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the Corporation, should be changed with the same frequency. The Internal Auditor or designated officer should submit to the Audit and Risk Management Committee and Management an annual report on the internal audit department's activities, responsibilities, and performance relative to the audit plans and strategies as approved by the Committee. The annual report should include significant risk exposures, control issues, and such other matters as may be needed or requested by the Board and Management. The Internal Auditor or designated officer should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.

B. The Audit and Risk Management Committee, shall make recommendations to the Board of Directors on the appointment, reappointment, replacement, and fees of the external auditor. These recommendations shall be approved by the Board and ratified by the shareholders. For replacement of the external auditor, the reason for the change shall be disclosed to the regulators and the public through the company website and required disclosures. The external auditor duly accredited by the Commission who shall undertake an independent audit of the Corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the Corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

If the external auditor resigns, is dismissed, or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the Corporation's annual and current reports. The report shall include a discussion of any disagreement between him and the Corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the Corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Corporation to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

The Corporation shall disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest. The Audit and Risk Management Committee shall be alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

#### **Article 6: Stockholders' Rights and Protection of Minority Stockholders' Interests**

- A. The Board shall respect the rights of the stockholders as provided for in the

Corporation's Articles of Incorporation and the Corporation Code; namely:

- i. Right to vote on all matters that require their consent or approval;
- ii. Right to inspect corporate books and records;
- iii. Right to information;
- iv. Right to dividends; and
- v. Appraisal right.

The pre-emptive right is denied under the Corporation's Articles of Incorporation.

B. The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be appraised ahead of time of their right to appoint a proxy. Subject to the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholders' favor.

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 encourages active shareholder participation. The Notice of Annual or Special Shareholders' Meeting will contain sufficient and relevant information and will be sent to the shareholders at least, as much as practicable, twenty-eight (28) days before the meeting.

The Board also encourages active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available by the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting shall be available in the company website within five (5) business days from the end of the meeting.

The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all stockholders should be treated equally or without discrimination, minority stockholders may request in writing the holding of meetings and the items for discussion in the agenda that relate directly to a legitimate purpose and the business of the Corporation, subject to the requirement under the By-laws that such requesting stockholder is the holder of record of not less than one-fourth (1/4) of the outstanding voting capital stock of the Corporation.

#### **Article 7. Governance Self-Rating System**

The Board shall be primarily responsible for approving the selection and assessing the performance of the Management. The Board may create an internal performance management framework and self-rating system that can ensure that Management's performance is at par with the standards set by the Board and with the criteria provided for in the Manual. The creation and implementation of such performance management framework and self-rating system, including its salient features, may be disclosed in the Corporation's annual report.

The Board shall conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. Every three (3) years, the assessment shall be supported by an external facilitator. The Board shall have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, committees and such system shall allow for a feedback mechanism from the shareholders.

## **Article 8. Disclosure and Transparency**

The essence of corporate governance is transparency. The more 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.

A. The Board shall establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable, and timely report to shareholders and other stakeholders that give a fair and complete picture of the Corporation's financial condition, business results and business operations. It is therefore essential that all material information about the Corporation which could adversely affect its viability or the interest of its stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of Board members and Management.

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

B. The Corporation shall have a policy requiring all directors and officers to disclose/report to the Corporation any dealings in the Corporation's shares within three (3) business days.

- C. In addition, the Board shall fully disclose:
- i. all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment;
  - ii. policies and procedures for setting Board and executive remuneration;
  - iii. policies governing related party transactions and other unusual or infrequently occurring transactions in the Manual. The material or significant related party transactions reviewed and approved during the year shall be disclosed in its Annual Corporate Governance Report; and
  - iv. material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. Moreover, the Board of the offeree company shall appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

D. The Board shall have a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social, and governance issues of its business, which underpin sustainability. The Corporation shall

adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

E. The Corporation may include media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.

The Corporation's corporate governance policies, programs and procedures shall be contained in this Manual, which shall be submitted to the regulators and posted on the Corporation's website.

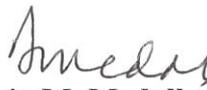
#### **Article 9. Commitment to Good Corporate Governance, Code of Conduct, and Ethics**

The corporate governance rules that the Corporation may establish and implement in accordance with the Code shall be embodied in this Manual that can be used as reference by the members of the Board and Management.

The Board shall adopt a Code of Business Conduct and Ethics, which will provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Code of Business Conduct and Ethics shall be properly disseminated to the Board, senior management and employees. It will also be disclosed and made available to the public through the company website. The Board shall ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.

#### **Article 10. Implementation**

This Manual shall be disseminated to all the directors, officers, and employees for their information and compliance with the provisions hereof. The Corporation shall implement the appropriate communication and training program to ensure the effective implementation of this Manual.

  
**Tarcisio M. Medalla**  
Chairman of the Board

  
**Mark David P. Martinez**  
Compliance Officer