



# **AMENDED MANUAL ON CORPORATE GOVERNANCE**

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## MANUAL ON CORPORATE GOVERNANCE

The Board of Directors and Management of HARBOR STAR SHIPPING SERVICES, INC. (the "Corporation") hereby commit themselves to the principles and best practices contained in this Manual, for the attainment of the Corporation's goals and objectives.

### I. OBJECTIVE

This Manual shall institutionalize the principles of good corporate governance in the entire organization.

The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization.

### II. COMPLIANCE SYSTEM

#### *2.1 Compliance Officer*

2.1.1 To insure adherence to corporate principles and best practices, the Chairman of the Board shall designate a Compliance Officer. The Compliance Officer shall hold, at the minimum, the position of a Vice-President or its equivalent. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer. He/She shall have direct reporting responsibilities to the Chairman of the Board.

2.1.2 He/She shall perform the following duties:

- a. Monitor compliance by the Corporation with the provisions and requirements of this Manual and the rules and regulations of regulatory agencies. If any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties in accordance with the provisions of this Manual and the adoption of measures to prevent a repetition of the violation;
- b. Issue a certification every January 30th of the year on the extent of the Corporation's compliance with this Manual for the completed year, explaining the reason/s for its deviation/s if any;

- c. Identify, monitor and suggest ways to control compliance with the rules and regulations of regulatory agencies, and take appropriate corrective measures to address all regulatory issues and concerns; and
  - d. Appear before the Securities and Exchange Commission ("SEC") when summoned in relation to compliance with this Manual.
- 2.1.3 The appointment of the Compliance Officer shall be immediately disclosed to the SEC on SEC Form 17-C. All correspondence from the SEC relative to the matters as such shall be addressed to said Compliance Officer.

## ***2.2 Plan of Compliance***

### **2.2.1 Board of Directors**

Compliance with the principles of good corporate governance shall start with the Board of Directors.

#### **a. Composition of the Board**

The Board shall be composed of at seven (7) members who are elected by the shareholders.

The membership of the Board may be a combination of Executive and Non-executive Directors (which include Independent Directors) in order that no director or small group of directors can dominate the decision-making process.

The Non-executive Directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

#### **b. General Responsibility of the Board**

A director's office is one of trust and confidence. He/She shall act in a manner characterized by transparency, accountability and fairness. He/She should exercise leadership, prudence, and integrity in directing the Corporation towards sustained progress.

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 shareholders and other stakeholders.

The Board shall 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.

It shall also take care of the interests of the shareholders and protect their investment through the implementation of sound corporate policies and plans while maintaining its independent assessment on Management's performance.

c. Specific Duties and Functions of the Board

To insure a high standard of best practice for the Corporation, its shareholders and other stakeholders, the Board shall conduct itself with honesty and integrity in the performance of the following duties and functions:

- i. Install and implement a process for the selection of directors to ensure a mix of competent directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies.
- ii. Appoint competent, professional, honest and highly motivated management officers, and adopt an effective succession planning program for Management.
- iii. Ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices.
- iv. Identify the Corporation's major and other stakeholders and formulate a clear policy on communicating or relating with them through an effective investor relations program that will keep them informed of important developments in the Corporation.
- v. Adopt a system of internal checks and balances. A regular review of the effectiveness of such system shall be conducted to ensure the integrity of the decision-making and reporting processes at all times. There shall be a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness.
- vi. Identify key risk areas and key performance indicators and monitor these factors with due diligence to enable

the Corporation to anticipate and prepare for possible threats to its operational and financial viability.

- vii. Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;
- viii. Keep Board authority within the powers of the Corporation as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulations;
- ix. Provide sound strategic policies and guidelines to the Corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
- x. Identify the ~~sectors~~ Corporation's stakeholders in the community in which the Corporation operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- xi. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major shareholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.
- xii. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
- xiii. Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its shareholders, and the Corporation and third parties, including the regulatory authorities.

- xiv. Appoint a Compliance Officer who shall have the rank of at least Vice President. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

d. Specific Duties and Responsibilities of a Director

A director shall have the following duties and responsibilities:

- i. To conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions nor conflict with the interests of the Corporation;
- ii. To devote time and attention necessary to properly discharge his/her duties and responsibilities;
- iii. To act judiciously;
- iv. To exercise independent judgment;
- v. To have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the rules, regulation and requirements of the SEC, and where applicable, the requirements of other regulatory agencies;
- vi. To observe confidentiality; and,
- vii. To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.

e. Qualifications

The directors shall possess such qualifications for membership in the Board as prescribed by the Corporation Code, Securities Regulation Code and other relevant laws, rules and regulations. The non-executive directors shall possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

In addition, the Corporation shall require all of its directors before assuming office as such, to attend a seminar on corporate governance conducted by a duly recognized private or government institute.

Among others, the following qualifications shall be considered in a director's nomination and election to the Board:

- i. He shall be at least a college graduate or he shall have been engaged or exposed to the business of the Corporation for at least five (5) years;
- ii. Practical understanding of the business of the Corporation;
- iii. Membership in good standing in relevant industry, business or professional organizations; and
- iv. Vast and successful business experience.

f. Disqualifications

The following shall be grounds for the permanent disqualification of a director:

- i. 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/her fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person or any of them;
- ii. Any person who, by reason of misconduct, after hearing, is permanently enjoined by final judgment or order of the SEC 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;



- iii. The disqualification shall also apply if such person is currently the subject of an order of the SEC 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 SEC or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the SEC or BSP, or has otherwise 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;
- iv. Any person judicially convicted by final judgment of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- v. Any person finally found by the SEC or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation or order of the SEC or BSP;
- vi. Any person judicially declared to be insolvent;
- vii. Any person earlier elected as independent director who becomes an officer, employee, or consultant of the same Corporation;
- viii. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and
- ix. Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his/her election or appointment.

Any of the following shall be a ground for the temporary disqualification of a director:

- i. Refusal to fully disclose the extent of his/her business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his/her refusal persists;
- ii. Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during his/her incumbency, or any twelve (12) month period during said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election;
- iii. Dismissal/termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he/she has cleared himself of any involvement in the alleged irregularity;
- iv. Being under preventive suspension by the Corporation;
- v. Conviction that has not yet become final referred to in the grounds for the disqualification of directors; and
- vi. If the beneficial equity ownership of an independent director in the Corporation or its subsidiaries or affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.

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

g. Membership Criteria

The members of the Board shall be elected from a list of nominees who have been identified, screened and recommended for election by the Nominations Committee. Any shareholder of record may nominate a candidate for directorship in the annual shareholders' meeting of the

Corporation. Nominees shall be selected on the basis of the set of criteria and other relevant factors as laid down in this Manual.

It is in the best interests of the Corporation and its shareholders to obtain highly qualified individuals to serve on the Board. These are only threshold criteria, however, and the Nomination Committee will also consider the contributions that a candidate can be expected to make to the collective functioning of the Board based upon the totality of the candidate's credentials, experience and expertise, the composition of the Board at that time, and other relevant circumstances.

Among others, the nominee must:

- i. Have high personal and professional integrity, and shall have demonstrated, through specific experience or otherwise, relevant knowledge, skills, expertise, ability to make independent analytical inquiries, understanding of the Corporation's business environment, and willingness to devote adequate time and effort to board responsibilities;
- ii. Committed to promoting and enhancing the long term value of the Corporation for its shareholders;
- iii. Should not have any interests that would materially impair his or her ability to (a) exercise independent judgment, or (b) otherwise discharge the fiduciary duties owed as a director to the Corporation and its shareholders;
- iv. Be able to represent fairly and equally all shareholders of the Corporation without favoring or advancing any particular shareholder or other constituency of the Corporation;
- v. Have sound judgment, derived from Management or policy-making experience (which may be as an advisor or consultant), that demonstrates an ability to function effectively in an oversight role;
- vi. Conduct fair business transactions with the Corporation, and ensure that his personal interest does not conflict with the interests of the Corporation;

- vii. Should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He 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;
- viii. Devote the time and attention necessary to properly and effectively perform his duties and responsibilities;
- ix. Devote sufficient time to familiarize himself with the Corporation's business. He should be constantly aware of and knowledgeable with the Corporation's operations to enable him to meaningfully contribute to the Board's work. He should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation;
- x. 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; and
- xi. Be abreast with industry developments and business trends in order to promote the Corporation's competitiveness.

In addition to the minimum qualifications for each nominee described above, at least one (1) Non-Executive Director should have experience in the sector or industry in which the Corporation belongs to.

The Nomination Committee is responsible for reviewing with the Board, on a periodic basis, the appropriate skills and characteristics required of the directors in the context of the current needs of the Corporation. In determining whether a director should stand for re-election, appropriate consideration shall be given to the director's attendance at board meetings and his or her performance as a director.

## h. Board Meetings and Quorum Requirement

- i. The members of the Board should attend its regular and special meetings in person or through teleconferencing conducted in accordance with the rules and regulations of the SEC.
- ii. 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 independent director in all its meetings.
- iii. Agenda items are designated by the Chairman in consultation with the CEO, Management, or others as determined by the Chairman. Any director may suggest agenda items and may raise at meetings other matters they consider worthy of discussion.
- iv. The Corporate Secretary shall be responsible for the timely and proper distribution of notices, agenda and other relevant meeting materials for discussion during the pertinent board meeting through the recognized modes of transmission of information i.e., personal delivery, fax, email notice, mail of courier. Receipt should be ensured to allow for ample review by the members of the Board to enable them to fully comprehend the matters to be discussed during the relevant meeting.
- v. To prepare for meetings, directors shall review all materials sent in advance. The Board believes that maintaining confidentiality of information and Board deliberations is critical. The proceedings and deliberations of the Board and all Board Committees shall, accordingly, be confidential. Each director shall continue to maintain the confidentiality of information received in connection with his or her service as a director. Information learned during the course of service on the Board is to be used solely in furtherance of the Corporation's business.
- vi. To monitor the director's compliance with the attendance requirements, the Corporation shall submit to the SEC, on or before January 30 of the following year, a sworn certification about the directors' record of attendance in

Board meetings. The certificate of attendance shall be signed by the Corporate Secretary and countersigned by the Chairman of the Board.

i. 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. No director shall participate in deciding on his/her 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.

j. Penal Sanctions

A corporate director/officer shall be removed from office, in the manner provided by law, if he/she commits any of the following acts:

- i. When he/she willfully and knowingly votes or assents to a patently unlawful act;
- ii. When he/she is guilty of gross negligence or bad faith in the conduct of the corporate affairs;
- iii. When he/she acquires personal or pecuniary interest which is in conflict with his/her duty as such officer;
- iv. When he/she commits acts in violation of the pertinent and material provisions of the Corporation Code of the Philippines, the Securities Regulations Code, its implementing rules and regulations and corresponding amendments on the fiduciary duties of a corporate director or officer; and,
- v. The corporate director or officer shall be personally liable for acts committed under paragraphs (i), (ii), and (iii) above.

The penalty of removal from office imposed hereunder shall be without prejudice to the Corporation's right to file the appropriate civil or criminal case against the corporate director or officer involved.

## **2.2.2 The Chairman of the Board**

In addition to the duties imposed under the By-Laws, the Chairman shall perform the following duties and responsibilities in relation to the Board:

- a. Ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chairman may deem necessary;
- b. 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
- c. Maintain qualitative and timely lines of communication and information between the Board and Management.
- d. Ensure that the members of the Board are timely, properly and accurately informed of developments in the Corporation;
- e. Promote independence in the decision-making of the members of the Board;
- f. Ensure that productive output and time management are recognized in board meetings;
- g. Maintain a balance among the varying views of the members of the Board;
- h. Defer matters that should properly be taken up and decided by Management or the various committees;
- i. Maintain appropriate meeting decorum;
- j. Ensure effective communication with shareholders;
- k. Ensure constructive relations between the Board and Management; and
- l. Promote high standards of corporate governance.

## **2.2.3 Board Committees**

To aid in complying with the principles of good corporate governance, the Board shall constitute the following Committees:

**a. Audit Committee**

- i. The Audit Committee shall be composed of at least three (3) members of the Board, who shall preferably have accounting and finance backgrounds, one (1) of whom shall be an Independent Director, who shall act as the Chairman, and another shall have audit experience. Each member shall have at least an adequate understanding or competence of most of the Corporation's financial management systems and environment.
- ii. Duties and Responsibilities
  - Check all financial reports against its compliance with pertinent accounting standards, including laws and regulatory requirements;
  - Perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management. This function shall include regular receipt from Management of information on risk exposures and risk management activities;
  - Pre-approve all audit plans, scope and frequency one (1) month before the conduct of external audit;
  - 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;
  - Perform oversight functions with the 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;
  - Elevate to international standards the accounting and auditing processes, practices and methodologies of the Corporation;
  - Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Corporation;
  - 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;
- 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 duplication of efforts;
  - Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
  - Monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security;
  - Review the reports submitted by the internal and external auditors;
  - Review the quarterly, half-year and annual financial statements and before their submission to the Board, with particular focus on the following matters:
    - (a) any changes in accounting policies and practices;
    - (b) major judgmental area;
    - (c) significant adjustments resulting from the audit;
    - (d) going concern assumptions;
    - (e) compliance with accounting standards; and
    - (f) compliance with tax, regulatory and legal requirements.
  - 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 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/her duties as an external auditor or may pose a threat to his/her independence. The non-audit work, if allowed, shall be disclosed in the corporation's annual report;
  - Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his/her duties and responsibilities. He/She 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/she shall be free from interference by outside parties.

**b. Risk Management Committee**

- i. The Risk Management Committee shall be composed of three (3) members of the Board and such other persons as the Board may designate.
- ii. Duties and Responsibilities:
  - Ensures that the Board and Management are aware of all actual and potential risks, both internal and external, facing the business;
  - Implement an effective system to identify, monitor and assess risks;
  - Review, on a quarterly basis, the Corporation's business for risk identification, mitigation and monitoring;
  - Establish consistency and best practices rules in the managing, monitoring and reporting of risks;
  - Identify risks which may be beneficial to the Corporation if properly managed and controlled;
  - Ensure that risk-taking is an informed process within a pre-determined range;
  - When deemed necessary, appoint a Risk Management Officer;
  - Operationalize a Risk Management Program.

### **c. Governance Committee**

- i. The Governance Committee shall be consists of three (3) members of the Board, one (1) of whom shall be an Independent Director. and such other persons as the Board may designate.
- ii. The Governance Committee shall assist the Board with respect to governance matters most especially in the implementation of practices and standards to be observed in an effective stewardship environment.
- iii. The Governance Committee should be a cohesive and independent team of planners and program implementers that can play a critical role in fostering a healthier and better culture among the Board members and Management.
- iv. Duties and Responsibilities:
  - o Undertaking and approving an annual performance assessment of the Board, its committees and the individual directors. The Performance Assessment Guidelines and Scorecard shall be prepared in accordance with the mandates of this Manual;
  - o Preparation and approval of an annual program of governance including the planning of an annual continuing education program for the Board and Management;
  - o Approval of policies, programs and processes to be contained in a manual and directors' handbook insofar as the same will supplement this Manual;
  - o Assessing the competency requirements and compliance levels of the members of the Board insofar as continuing board education is concerned;
  - o Reviewing policies of the Board and its committees insofar as they relate to governance matters;
  - o Reviewing governance standards published by other Philippine listed companies with a view of assessing their relevance and developing a more current set of standards for the Corporation;

#### **d. Nomination Committee**

- i. The Nomination Committee shall be composed of at least three (3) members of the Board, one (1) of whom shall be an Independent Director, and such other persons as the Board may designate.
- ii. Duties and Responsibilities:
  - Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board;
  - Formulate screening policies to enable the Nomination Committee to effectively review and evaluate the qualification of the nominees nominated to the Board and other appointments which require approval of the Board;
  - Assess the effectiveness of the Board processes and procedures in the election and replacement of directors; and
  - Conduct nominations for Independent Directors prior to the stockholders' meeting in accordance with the procedure set forth in Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code, as the same may be amended from time to time.
- iii. The decision of the Nomination Committee as to nominees to the Board, once confirmed by the Board, shall be final and binding upon the shareholders.
- iv. The Nomination Committee shall promulgate the guidelines or criteria to govern the conduct of nominations; provided, that any such promulgated guidelines or criteria governing the conduct of nomination of Independent Directors shall be properly disclosed in the Corporation's information or proxy statement or such other reports required by the Securities and Exchange Commission.
- v. The Nomination 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.
- vi. After the nomination, the Nomination Committee shall prepare a final list of candidates which shall contain all the information about all the nominees, including, but not limited to, the following information:

- (a) Name, age and citizenship;
- (b) List of positions and offices that each such nominee held, or will hold, if known, with the Corporation;
- (c) Business experience during the past five (5) years;
- (d) Directorship held in the other companies;
- (e) Involvement in legal proceedings; and
- (f) Security ownership.

vii. The Final List shall be made available to the Securities and Exchange Commission and to all stockholders through the filing and distribution of the Information Statement or in such other reports required by the Securities and Exchange Commission. The name of the person or group of persons who recommended the nomination of the directors shall be identified in such report including any relationship with the nominee.

viii. The Chairman of the stockholder's meeting has the responsibility to inform all stockholders in attendance of the mandatory requirement of electing Independent Directors and to ensure that the Independent Directors are elected during the stockholders' meeting.

#### **e. Compensation and Remuneration Committee**

- i. The Compensation or Remuneration Committee shall be composed of at least three (3) members of the Board, one (1) of whom shall be an Independent Director.
- ii. Duties and Responsibilities
  - Establish the appropriate procedure for developing a policy on executive remuneration and for fixing the remuneration packages of executive officers and directors;
  - Provide oversight on remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Corporation's culture, strategy and control environment;
  - Creation of a formal and transparent procedure for developing policies on executive remuneration packages for directors and executive officers;
  - Carefully study remuneration packages to provide sufficient compensation for the services of and attract, retain and motivate an able and competent roster of directors;

- Design a performance-based remuneration to complement or reward good performance while at the same time keeping in mind the interests of shareholders;
- iii. To prevent the risk of conflict of interests, concerned directors shall not participate in deciding compensation packages involving his own.
- iv. Appropriate standards and measures must be laid down for purposes of assessing Executive Directors' performances while Non-executive Directors may be remunerated on the basis of their contribution considering the time and efforts spent in the services of the Corporation.
- v. Incentives may also be given to include stock options, whenever the resources of the Corporation permits.

#### **2.2.4 Independent Directors**

- a. The Corporation shall have at least two (2) independent directors or such number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is higher, but in no case less than two (2). The independent directors shall possess such qualifications for membership in the Board as prescribed by the Securities Regulation Code, its implementing rules and regulations and other relevant laws, rules and regulations.
- b. An "independent director" means a person who, apart from his/her 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/her exercise of independent judgment in carrying out his/her responsibilities as a director of the corporation and includes, among others, any person who:
  - i. Is not a director or officer of the Corporation or of its related companies or any of its substantial shareholders except when an independent director of any of the foregoing;
  - ii. Does not own more than two percent (2%) of the shares of the Corporation and/or its related companies or any of its substantial shareholders;

- iii. Is not related to any director, officer or substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
  - iv. Is not acting as a nominee or representative of any director or substantial shareholder of the Corporation, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
  - v. Has not been employed in any executive capacity by the Corporation, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;
  - vi. Is not retained, either personally or through his/her firm or any similar entity, as professional adviser, by the Corporation, any of its related companies and/or any of its substantial shareholders, within the last two (2) years; or
  - vii. Has not engaged and does not engage in any transaction with the Corporation and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he/she is a partner and/or a company of which he/she is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial.
- c. A “related company” means another company which is: (a) its holding company; (b) its subsidiary; or (c) a subsidiary of its holding company; and a “substantial shareholder” means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.
- d. Further, an Independent Director shall have the following qualifications:
- i. He shall have at least one (1) share of stock of the Corporation;
  - ii. He shall be at least a college graduate or he shall have been engaged or exposed to the business of the Corporation for at least five (5) years;

- iii. He shall possess integrity/ probity; and
  - iv. He shall be assiduous.
- e. In addition to the grounds for temporary or permanent disqualification of a director, an Independent Director shall likewise be disqualified during his tenure under the following instances or causes:
- i. He becomes an officer or employee of the Corporation;
  - ii. His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of the Corporation;
  - iii. Fails, without any justifiable cause, to attend at least fifty percent (50%) of the total number of Board meetings during his incumbency.
- f. An Independent Director shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with the Corporation, Management or controlling shareholder at the time of his election or appointment and/ or re-election as a director.

### **2.2.5 The President**

The President shall be the Chief Executive Officer (the “CEO”) of the Corporation and is the strategic and operational leader directly accountable to the Board for all corporate activities. The responsibilities of the President are spread throughout almost all aspects of the business of the Corporation from planning, organizing, development and implementation.

The Board is responsible for identifying and electing a President as well as for approving and implementing a process of evaluation of his or her performance both on an on-going and annual basis. The Board shall establish annual performance expectations and goals for the President which should be benchmark for success of projects undertaken and implemented by the President for each annual review.

Among others, the President must have the following core competencies:

- a. Strategic and visionary leadership capabilities. He should be able to manage people and motivate them in performing their respective duties with integrity and proficiency. He should also be flexible and integrative with the ability to evaluate complex situations and issues



concerning the the business of the Corporation. Most importantly, he should be able to represent Management to the Corporation's stakeholders / shareholders and effectively communicate to them the Corporation's mission and vision and how the organization is working towards achieving these goals;

- b. Creditable professional drive. He should have an excessive appetite for success with the professional drive and commitment to the growth and success of the business, himself and people working with him and for him;
- c. Role model qualities. The President must be a leader and role model of Management and employees. He should be able to promote a culture of optimal talent, above-par aptitude, strong leadership, performance, at all levels of the business;
- d. Superior personal and professional inter-relationships abilities. The President should be able to build sustainable relationships with people both internal and external to the Corporation. He should also be able to represent the Corporation to the business community to advance its goals and sustainability and build a network of prospective partners / allies to make the Corporation more globally competitive;

The Nomination Committee shall periodically review the Corporation's succession plans for the President and, as needed, make recommendations to the Board regarding the selection of individuals to fill this position. There shall be an annual report to the Board by the Nomination Committee on the Corporation's plans regarding its President and other senior management succession planning.

An evaluation of the President 's performance shall be made annually by the Non-executive Directors based on objective and subjective criteria such as performance of the business, accomplishment of long-term strategic objectives, management development and organizational development.

### **2.2.6 The Corporate Secretary**

- a. The Corporate Secretary is an officer of the Corporation and must comply with his/her responsibilities as set out in the By-Laws of the Corporation.
- b. The Corporate Secretary shall be a Filipino citizen and a resident of the Philippines.

c. Considering his/her varied functions and duties, he/she must possess administrative and interpersonal skills, and if he/she is not the general counsel, then he/she must be aware of the laws, rules and regulations necessary in the performance of his/her duties and responsibilities. The Corporate Secretary must also have a working knowledge of the operations of the Corporation. He/She must be loyal to the mission, vision and objectives of the Corporation and be able to work fairly and effectively with the Board, Management and shareholders.

d. Duties and Responsibilities

- 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 all other documents, records and information essential to the conduct of his/her duties and responsibilities to the Corporation as set out in the By-Laws;
- ii. Inform the members of the Board, in accordance with the By-Laws, of the agenda of their meetings, and ensure that the members of the Board have accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- iii. Work fairly and objectively with the Board, Management, shareholders and other stakeholders;
- iv. Attend all Board meetings and maintain record of the same, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
- v. Ensure that all Board procedures, rules and regulations are strictly followed by the members;
- vi. If he/she is also the Compliance Officer, perform all the duties and responsibilities of the said officer provided in this Manual; and
- vii. Submit a certification to the SEC every 30<sup>th</sup> of January of the year regarding the attendance of the directors during Board meetings, countersigned by the Chairman of the Board.

### **2.2.7 Treasurer**

- a. The Treasurer is an officer of the Corporation and must comply with his/her responsibilities as set out in the By-Laws of the Corporation.
- b. The Treasurer shall have the following responsibilities:
  - i. Keep regular books of account of the Corporation;
  - ii. Have charge and custody of and be responsible for all the funds and securities of the Corporation;
  - iii. Receive and give from any source whatsoever and deposit all such moneys in the name of the Corporation in such banks, trust companies, or other depositories as shall be selected by the Board;
  - iv. Render to the Board from time to time an account of all his/her transactions as Treasurer and of the financial conditions of the Corporation;
  - v. Perform all the duties incidental to the office of the Treasurer and such other duties as from time to time may be assigned to him/her by the President or by the Board.

### **2.2.8 Adequate and Timely Information**

- a. To enable the members of the Board to properly fulfill their duties and responsibilities, Management shall provide them with complete, adequate and timely information about the matters to be taken in their meetings. Members of the Board shall be given independent access to Management and the Corporate Secretary.
- b. The members, either individually or as a Board, and in furtherance of their duties and responsibilities, shall have access to independent professional advice at the Corporation's expense.

### **2.2.9 Internal Control**

- a. Internal control aims to ensure that the Corporation's business activities are efficient and proficient, financial reporting is reliable and that applicable laws, regulations and internal policies are followed.
- b. The control environment of the Corporation consists of the following:

- i. The Board who ensures that the Corporation is properly and effectively managed and supervised;
  - ii. A Management who actively manages and operates the Corporation in a sound and prudent manner;
  - iii. Organizational and procedural controls supported by effective management information and Risk Management reporting systems; and
  - iv. 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, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations and contracts;
  - v. An effective internal control system, which shall include control objectives and common control points for financial reporting as well as roles and responsibilities in executing and monitoring internal control in the Corporation, based on following guidelines:
    - (a) Standardization of methodologies and processes shall be done by structuring rules and principles to be applicable to the Corporation and its subsidiaries;
    - (b) Internal control standards shall be defined and explained with clarity in simple language as to be understood by both Management and personnel;
    - (c) A list of mandatory key controls, designed to cover the main risks pertaining to processes which impact financial information, protection of assets, detection and prevention of fraud, shall be made available.
- c. Implementation of the Internal Controls shall be a joint effort by and among the Board, various committees, particularly the Audit Committee, CEO and Chief Finance Officer. It must be implemented to provide reasonable, and not absolute, assurance on the integrity and reliability of the financial statements. Measures must also be in place to safeguard, verify and maintain accountability of its assets and to detect fraud, potential liability, and loss and material misstatement.

- d. The Board shall review the effectiveness of controls on an annual basis through a process of Management self-assessment. Consideration must be given to information and report from the Audit Committee and External Auditor.
- e. The Corporation shall prepare and implement an Internal Control Manual which shall be duly approved by the Board and the committees.

#### **2.2.10 Accountability and Audit**

- a. The Board is primarily accountable to the shareholders. Thus, Management shall 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, to comply with its responsibilities to its shareholders.
- b. Management shall formulate, under the supervision of the Audit 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 shall 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 shall be maintained;
  - iii. On the basis of the approved audit plans, internal audit examinations shall 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; and
  - iv. The Corporation shall consistently comply with the financial and reporting requirements of the SEC.

### **2.2.11 Internal Audit**

- a. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice.
- b. Internal audit requires various functions related to the evaluation of the effectiveness the Corporation's risk management, internal controls and governance. Internal audit helps ensure:
  - i. Risks are appropriately identified and managed;
  - ii. Significant financial, managerial, and operating information is accurate, reliable, and timely;
  - iii. Resources are used efficiently and adequately safeguarded;
  - iv. Operations are transacted in accordance with sufficient internal controls, good business judgment, and high ethical standards;
  - v. Quality and continuous improvement are fostered in the Corporation's internal control processes.

### **2.2.12 Director of Internal Audit and Tax Compliance**

The Board may appoint a Director for Internal Audit and Tax Compliance with the following duties:

- a. Develop, document, implement, test, and maintain a comprehensive internal audit plan and system of internal controls to help provide assurance that applicable laws, regulations, and policies and procedures are complied with judiciously;
- b. Examine financial transactions for accuracy and compliance with institutional policies and applicable laws and regulations;

- c. Evaluate financial and operational procedures to assure adequate internal controls are present;
- d. Identify, assess, and evaluate risk areas; make appropriate recommendations for improved internal controls and accounting procedures; and research and adopt industry best practices where appropriate;
- e. Direct research and strategic planning efforts related to tax issues;
- f. Advise senior management on policy and procedure developments with respect to tax issues.

### **2.2.13 External Auditor**

- a. The Board, after consultations with the Audit Committee, shall recommend to the shareholders an external auditor duly accredited by the SEC 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 shareholders.
- b. An external auditor shall maintain an environment of good corporate governance in the preparation of financial records and reports of the Corporation.
- c. The reason for the resignation, dismissal, or cessation from service and the date thereof of an external auditor shall be reported in the Corporation's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which 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.
- d. 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/her duties as an independent auditor, or does not pose a threat to his/her independence.
- e. The Corporation's external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.

- f. If an external auditor believes that the statements made in the Corporation's annual report, information statement or proxy statement or any report filed with the SEC or any regulatory body during his/her engagement is incorrect or incomplete, he/she shall present his/her views in said reports.

#### **2.2.14 Internal Auditor**

- a. The Corporation shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and shareholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.
- b. The Internal Auditor shall report to the Audit Committee.
- c. The minimum internal control mechanisms for Management's operational responsibility shall center on the President, being ultimately accountable for the Corporation's organizational and procedural controls.
- d. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.
- e. The Internal Auditor shall submit to the Audit 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 Audit Committee. The annual report shall include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor shall certify that he/she conducts his/her activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he/she does not, he/she shall disclose to the Board and Management the reasons why he/she has not fully complied with the said standards.
- f. Recommendations in an internal audit report should help the Corporation achieve effective and efficient governance, risk and control processes associated with operations objectives, financial and management reporting objectives; and legal/regulatory compliance objectives.



- g. Audit findings and recommendations may also relate to particular assertions about transactions, such as whether the transactions audited were valid or authorized, completely processed, accurately valued, processed in the correct time period, and properly disclosed in financial or operational reporting, among other elements.
- h. The Internal Auditor will be responsible for the execution of Corporation activities advising Management and the Board regarding ways and means to better execute their functions and responsibilities. The Internal Auditor to be appointed maybe on employment or consultancy basis, depending on the needs and requirements of the Corporation and its on-going businesses.

### **2.2.15 Annual Internal Audit Plan**

Based on a risk assessment of the Corporation, the Director for Internal Audit, Internal Auditor, Management and the Board shall determine where to focus internal auditing efforts on an annual basis. An audit plan shall be proposed by the Audit Committee for approval by the Board. The plan shall cover, among others, the following:

- a. Establish and communicate the scope and objectives of the audit to appropriate Management;
- b. Develop an understanding of the business area under review. This includes objectives, measurements, and key transaction types. This likewise involves review of documents and interviews. Flowcharts and narratives may be created if necessary;
- c. Describe the key risks facing the business activities within the scope of the audit;
- d. Identify management practices in the five (5) components of control used to ensure each key risk is properly controlled and monitored;
- e. Develop and execute a risk-based sampling and testing approach to determine whether the most important management controls are operating as intended;
- f. Report issues and challenges identified and negotiate action plans with Management to address the problems; and
- g. Follow-up on reported findings at appropriate intervals. The Internal audit department shall maintain a follow-up database for this purpose.

### III. NOMINATION AND ELECTION OF DIRECTORS

The following rules shall apply with respect to the nomination and election of all members of the Corporation's Board of Directors:

- 3.1 Nomination of directors shall be conducted by the Nomination Committee prior to the annual shareholders' meeting. All recommendations shall be signed by the nominating shareholders together with the acceptance and conformity of the would-be nominees and shall be submitted to the Nomination Committee and the Corporate Secretary at least forty five (45) calendar days before the date of the actual meeting.
- 3.2 The Nomination Committee shall pre-screen the qualifications and prepare a Final List of all Candidates for directors and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for directors.
- 3.3 After the nomination, the Nomination Committee shall prepare a Final List of Candidates to be submitted to the Board of Directors, which shall contain all the information regarding the background and experience of the nominees required to be ascertained and made known under the Securities Regulation Code and relevant rules and regulations of the SEC. Said Final List of Candidates shall be disclosed in the reports required by law, rules and regulations to be submitted to the SEC and to all shareholders.
- 3.4 Only nominees 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. No further nomination shall be entertained or allowed on the floor during the actual annual shareholder's meeting.
- 3.5 It shall be responsibility of the Chairman of the shareholders' meeting to inform all shareholders in attendance of the mandatory qualifications and procedures for nominating and electing directors.
- 3.6 Specific slots for independent directors shall not be filled up by unqualified nominees.
- 3.7 Any controversy or issue arising from the selection, nomination or election of independent directors shall be resolved by the SEC by appointing independent directors from the list of nominees submitted by the shareholders.

- 3.8 In case of failure of election, resignation, disqualification or cessation of independent directorship, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, said vacancy shall be filled only by candidates approved by the Nomination Committee. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his/her predecessor in office.

#### **IV. ORIENTATION OF NEW MEMBERS**

The Corporation shall conduct an orientation for newly elected members of the Board. This orientation shall familiarize each new director with, among other things, the Corporation's business, strategic plans, significant financial, accounting and risk management issues, compliance programs, conflicts policies, code of business conduct, corporate governance and principal officers. Such new director shall, as appropriate, attend outside director education courses sponsored by recognized organizations. It shall also include meetings with and presentations by key management and visits to Corporation facilities.

#### **V. BOARD EDUCATION**

The Board recognizes the importance of continuing education of its members. Each director is expected to participate, as appropriate, in continuing education in order to maintain the necessary level of expertise to perform his or her responsibilities as a director. The Board acknowledges that director continuing education may be provided in a variety of different forms, including external or internal education programs, presentations or briefings on particular topics, educational materials, meetings with key management and visits to Corporation facilities. The Corporation, under the direction of the Nomination Committee, will assist the Board in pursuing continuing education programs for its directors.

#### **VI. RELATED PARTY TRANSACTIONS**

##### ***6.1 Policies***

- a. Possible and actual conflicts of interest between the Corporation and its Board and Management must be identified in all transactions and contracts entered into by the Corporation. In case such exists and it is determined that the contract or transaction is vital or beneficial to the Corporation, the approval process must be in consonance with established standards on Related Party Transactions.
- b. "Related Party Transaction" means any financial transaction, arrangement or relationship, including any indebtedness or guarantee

of indebtedness, or any series of similar transactions, arrangements or relationships involving an aggregate amount of at least Five Million Pesos (P 5,000,000.00) in which the Corporation or any of its subsidiary was, is or is proposed to be a participant and in which a Related Party has, had or may have a direct or indirect material interest.

- c. The Corporation recognizes that Related Party Transactions can present potential or actual conflicts of interest and may raise questions about whether such transactions are consistent with the Corporation's and its stockholders' best interests. Policies mandating the review and approval of Related Party Transactions should be adopted in order to set forth the procedures under which certain transactions must be reviewed and approved or ratified.

## ***6.2 Related Party***

- a. "Related Party" means any of the following:
  - i. Director, nominee for director or executive officer of the Corporation;
  - ii. Beneficial owner (other than a financial or investment institution) of more than 5% of the Corporation's voting securities;
  - iii. Immediate family member of a director, executive officer, nominee for director or beneficial owner of more than 5% of the Corporation's voting securities;
  - iv. An entity which is owned or controlled by someone who falls within the categories listed above; or
  - v. An entity in which someone listed above, in (i), (ii) or (iii), has a substantial ownership interest or control.
- b. An immediate family member is any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law of any director, nominee for director or executive officer of the Corporation.

## ***6.3 Identification of Potential Related-Party Transactions***

- a. All Related-Party Transactions must be brought to the Management's attention. On an annual basis, each of the directors and executive

officers are required to complete a questionnaire designed to elicit information about any potential Related-Party Transactions.

- b. Any potential Related-Party Transaction that is raised will be analyzed by the Corporation's Legal Department, in consultation with Management and, whenever warranted, the Corporation's External Auditor. The team will determine whether the transaction or relationship does, in fact, constitute a Related-Party Transaction requiring compliance with this Policy.

#### **6.4 Review and Approval of Related Party Transactions**

- a. At each of its meetings, the Audit Committee will be provided with the details of each existing or proposed Related-Party Transaction that it has not previously approved or disapproved with the following information:
  - i. The terms of the transaction;
  - ii. The business purpose of the transaction;
  - iii. Benefits to the Corporation and to the relevant director, executive officer or employee.
- b. In the event the Legal Department determines that it is impractical or undesirable to wait until the next committee meeting to review a Related-Party Transaction, the Chairman of the Audit Committee may act on its behalf to review and approve the Related-Party Transaction. In determining whether to approve a Related-Party Transaction, considerations should be placed on whether the terms of the Related-Party Transaction are fair to the Corporation or on terms at least equally favorable as would apply if the other party was not or did not have an affiliation with a director, executive officer or employee of the Corporation.
- c. The following parameters must be applied in the approval of Related Party Transactions:
  - i. There should be good demonstrable business reasons for the Corporation to enter into the Related Party Transaction;
  - ii. The Related-Party Transaction should not impair the independence of a director; and
  - iii. The Related-Party Transaction should not present an improper conflict of interests for any director, executive officer or

employee of the Corporation, taking into account the size of the transaction, the overall financial position of the director, executive officer or employee, the direct or indirect nature of the interest of the director, executive officer or employee in the transaction, the ongoing nature of any proposed relationship, and any other relevant factors.

## VII. RISK MANAGEMENT

### *7.1 Risk Management Policy*

- a. The Board recognizes the importance of identifying and controlling various risks to prevent undue or uncalculated negative impact on the Corporation. The Board also recognizes that risk oversight, implementation of comprehensive controls and assurance processes are part of its core functions.
- b. Accordingly, the Board has adopted the following risk policies and procedures (the "Risk Management Policy") to better manage risks of the Corporation, with the formation of a control framework to assist in identifying, assessing, monitoring and managing risks, so as to safeguard the assets and interests of the Corporation while ensuring the integrity of reporting.

### *7.2 Benefits*

Listed below are some of the benefits of establishing, implementing and maintaining a Risk Management Policy:

- a. More effective strategic and business planning;
- b. More effective utilization of resources;
- c. Better cost control;
- d. Enhances shareholder value by minimizing losses and maximizing opportunities;
- e. Increases knowledge and understanding of exposure to risks;
- f. Increases preparedness for third-party/ outside review resulting to more effective and less costly audits;
- g. Minimizes business disruptions; and

- h. Strengthens culture for continued improvement.

### **7.3 Risk Management Officer**

- a. When deemed necessary by the Risk Management Committee, there shall be a Risk Management Officer whose primary duties shall be as follows:
  - i. Develop and advise the Board and Management on the level of risk that is acceptable to the Corporation, including the acceptance of risk at levels that have been designed to accomplish strategic plans;
  - ii. Develop risk mitigation activities that when implemented will reduce or otherwise manage risk at levels that have been determined to be reasonable. Examples of which include, risk minimization procedures, cost effective insurance-and other risk shifting activities;
  - iii. Identify and prioritize existing risks—that are material to the Corporation;
  - iv. Monitoring business activities to periodically reassess risks and the effectiveness of controls to manage such risks and;
  - v. Supply the Risk Management Committee with quarterly reports on the risk management process.
- b. In the event that a separate Risk Management Officer has not been appointed or designated, the President shall fulfil said role in accordance with this policy.

### **7.4 Risk Profile**

The Risk Profile of the Corporation contains both financial and non-financial factors, internal and external factors, including material risks arising from operational activities, operational efficiency and investments in new projects.

The Board recognizes that the Corporation’s main business’ risks are determined by the nature of its business activities and that there are other factors that could influence the risk profile of the Corporation.

### **7.5 Risk Management Program**

The Risk Management Committee shall operationalize a Risk Management Program which shall be guided by the following:

- a. Establish Risk Profile and determine external and internal factors which can influence the Corporation's Risk Profile;
- b. Identify and characterize specific threats/ risks;
- c. Assess the vulnerability of critical assets to specific threats/ risks;
- d. Determine the risks (i.e. expected likelihood and consequences of specific threats/ risks on specific assets);
- e. Identify ways on how to minimize said threats/ risks;
- f. Prioritize risk reduction measures based on strategy;
- g. Implement and monitor
- h. Assess effectiveness, conduct reviews and evaluation and make necessary adjustments.

### **7.6 Minimizing Operational Risks**

In striving to manage risks in the best possible way, the Corporation has introduced the following guidelines to minimize operational risks, by ensuring that:

- a. All employees are aware of their duties, roles & responsibilities and are held accountable for their specific duties, roles & responsibilities;
- b. The-Corporation appoints authorities based on skill and experience;
- c. All agreements are recorded and documents safeguarded to substantiate dealings with external parties;
- d. The Corporation has in place insurance policies to minimize risk of loss through accidents or other adverse incidents;
- e. The Board receives on a regular basis, reports of its operational activities;



- f. That the Corporation has health and safety practices in place for its employees.

### **7.7 Minimizing External Risks**

The Board is aware that external risks, exposing the Corporation to financial loss are beyond its control. To minimize external risks, the following guidelines have been initiated:

- a. Receiving regular reports on the market relating to prices, interest rates, foreign exchange and economic news;
- b. Constant monitoring of the supply and demand situation of the Corporation's main product;
- c. Access to expert advice or research/ studies on the direction of the prices of the Corporation's product(s).

### **7.8 Annual Review**

The Risk Management Program shall be reviewed annually and all material changes to the Corporation's risk profile shall be noted. To assist the Risk Management Committee in conducting the annual review, Management and key executives are required to report to the Risk Management Committee on:

- a. Any material risks identified;
- b. How the risks are being managed;
- c. The implementation of any risk management or internal control system; and
- d. Breaches of the risk management Policy which occurred during the period.

## **VIII. COMMUNICATION PROCESS**

- 8.1 This Manual shall be available for inspection by any shareholder of the Corporation at reasonable hours on business days.
- 8.2 All directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

- 8.3 An adequate number of printed copies of this Manual must be reproduced under the supervision of the Legal department, with a minimum of at least one (1) hard copy of the Manual per department.

#### **IX. REPORTORIAL OR DISCLOSURE SYSTEM OF CORPORATION'S CORPORATE GOVERNANCE POLICIES**

- 9.1 The reports or disclosures required under this Manual shall be prepared and submitted to the SEC by the responsible Committee or officer through the Corporation's Compliance Officer.
- 9.2 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. The Corporation shall publicly and timely disclose all material information. It is therefore essential that all material information about the Corporation which could adversely affect the its viability or the interest of its shareholders and other stakeholders should be publicly and timely disclosed, in accordance with the Securities and Regulations Code and its implementing rules and regulations. Such information shall include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership.

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.

- 9.3 All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report.

The Corporation shall comply with all disclosure requirements imposed by the SEC and the Philippine Stock Exchange on listed and registered companies.

## **X. SHAREHOLDERS' BENEFIT**

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

### **10.1 *Voting Right***

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

### **10.2 *Power of Inspection***

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code.

### **10.3 *Right to Information***

The shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain matters such as their holdings of the Corporation's shares, dealings with the Corporation, relationships among directors and key officers, and the aggregate compensation of directors and officers.

### **10.4 *Right to Dividends***

Shareholders shall have the right to receive dividends subject to the discretion of the Board and in accordance with law.

### **10.5 *Appraisal Right***

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares. All rights granted by law to shareholders shall be observed by the Corporation.

### **10.6 *Protection of Shareholders' Rights by Directors***

The Board should be transparent and fair in the conduct of the annual and special shareholders' meetings of the Corporation. The shareholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised 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 shareholder's favor.

It shall be the duty of directors to promote shareholders' rights, remove impediments to the exercise of these rights, and allow possibilities to seek redress for violation of their rights. The Board shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person.

Accurate and timely information should be made available to the shareholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all shareholders should be treated equally or without discrimination, the Board may give minority shareholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Corporation as far as practicable and consistent with the relevant provisions of the By-Laws.

## **XI. MONITORING AND ASSESSMENT**

11.1 Each Committee shall report regularly to the Board of Directors.

This Manual shall be subject to an annual review unless the same frequency is amended by the Board.

11.2 All business processes and practices being performed within any department or business unit of HARBOR STAR SHIPPING SERVICES, INC. that are inconsistent with any portion of this manual is deemed revoked unless upgraded to the compliant extent.

## **XII. PENALTIES FOR NON COMPLIANCE WITH THE MANUAL**

12.1 To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Corporation's directors, officers and staff in case of violation of any of the provision of this Manual:

12.1.1 In case of first violation, the subject person shall be reprimanded.

12.1.2 Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.

- 12.1.3 For third violation, the maximum penalty of removal from office shall be imposed.
- 12.2 The commission of a third violation of this Manual by any member of the Board of the Corporation shall be sufficient cause for removal from directorship.
- 12.3 The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

Signed this 17<sup>th</sup> day of July 2014 at Makati City.



**GERONIMO P. BELLA JR.**  
*Chairman of the Board/President*