

COVER SHEET

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HARBOR STAR SHIPPING SERVICES, INC.

(Company's Full Name)

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Month Day

Fiscal Year

MANUAL ON CORPORATE GOVERNANCE

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stocholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS



2017 MANUAL ON CORPORATE GOVERNANCE

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2017 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. DEFINITION OF TERMS

- 2.1 Corporate Governance - the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal, and social obligations towards their Stakeholders.

Corporate Governance is a system of direction, feedback and control using regulations, performance standards using ethical guidelines to hold the Board and Senior Management accountable for ensuring ethical behavior--reconciling long-term customer satisfaction with Shareholder value-- to the benefit of all Stakeholders and society.

Its purpose is to maximize the organization's long-term success, creating sustainable value for its Shareholders, Stakeholders and the nation.

- 2.2 Board of Directors - the governing body elected by the Shareholders that exercises the corporate powers of a Corporation, conducts all its business and controls its properties.
- 2.3 Management - a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the Corporation.
- 2.4 Independent Director - a person who is independent of management and the controlling Shareholder, and is 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.

- 2.5 Executive Director - a Director who has executive responsibilities of day-to-day operations of a part of the whole of the Corporation.
- 2.6 Non-Executive Director - a Director who has no executive responsibility and does not perform any work related to the operations of the Corporation.
- 2.7 Related Party - shall cover the Corporation's subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities), that the Corporation exerts direct or indirect control over or that exerts direct or indirect control over the Corporation; the Corporation's Directors; officers; Shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other persons or juridical entity whose interest may pose a potential conflict with the interest of the Corporation.
- 2.8 Related Party Transactions - a transfer of resources, services, or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
- 2.9 Stakeholders - any individual, organization or society at large who can either affect and/or be affected by the Corporation's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.
- 2.10 Code - The Code of Corporate Governance for Publicly-Listed Companies, SEC Memorandum Circular No. 19 Series of 2016.

III. COMPLIANCE SYSTEM

3.1 Compliance Officer

- 3.1.1 To insure adherence to corporate principles and best practices, the Board of Directors shall appoint a Compliance Officer. The Compliance Officer shall hold, at the minimum, the position of a Senior Vice-President or its equivalent.

He/She shall have direct reporting responsibilities to the Chairman of the Board.

The Compliance Officer should not hold the position of the Corporate Secretary, nor be elected as a Director of the Corporation.

In the performance of his/her functions, duties and responsibilities, the Compliance Officer shall be primarily liable to the Corporation and its Shareholders, and not to the Chairman or the Chief Executive Officer.

3.1.2 He/She shall perform the following duties:

- a. Ensure proper onboarding of new Directors, which shall include, among others, orientation on the Corporation's business operations, industry background, and the Articles of Incorporation and By-Laws;
- b. 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;
- c. Collaborate with other corporate departments to properly address compliance issues, which may be subject to investigation;
- d. Ensure the integrity and accuracy of all documentary submissions to regulators;
- e. Identify possible areas of compliance issues and work towards the resolution of the same
- f. Identify, monitor and suggest ways to control compliance risks.
- g. Appear before the Securities and Exchange Commission ("SEC") when summoned in relation to compliance with this Manual and the Code;
- h. Ensure the attendance of Board Members and Key Officers to relevant trainings; and
- i. Performs all the duties and responsibilities provided for in the Code.

3.1.3 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.

3.1.4 The Compliance Officer should attend training on corporate governance annually.

3.2 Plan of Compliance

3.2.1 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 should be composed of such members so as to create a collective working knowledge, experience and expertise in the Corporation's industry. It should have an appropriate mix of competence and expertise to enable the Board to fulfil its roles and responsibilities, and to respond to the needs of the Corporation based on the evolving business environment and strategic direction.

The Board shall be composed of seven (7) members who are elected by the Shareholders. At least two (2) of the members of the Board of Directors or such number that constitutes twenty percent (20%) of the members of the Board, whichever is higher, but in no case less than two (2), shall be Independent Directors.

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

b. Functions, Duties and Responsibilities 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.

The Board shall have the following functions, duties, and responsibilities:

- i. 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 long-term best interests of its Shareholders and other Stakeholders;
- ii. Review and guide corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans;

- iii. Set performance objectives;
- iv. Monitor implementation and corporate performance;
- v. 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;
- vi. Oversee major capital expenditures, acquisitions and divestitures;
- vii. Control the functions of the Management through its respective heads;
- viii. Select and assess the performance of the Management, through the Chief Executive Officer;
- ix. Establish a performance management framework that will measure the performance of the Management and personnel and ensure that the same is at par with the standards set by the Board;
- x. Set standards in the selection and hiring of the Corporation's Officers, giving due consideration to the integrity, technical expertise and experience;
- xi. Designate the Officers of the Corporation, as set forth in the Manual;
- xii. Develop policies on the following matters:
 - a) Succession and Retirement of the Management;
 - b) Remuneration of the Directors and Management;
 - c) Nomination and Election to the Board;
 - d) Related Party Transactions Policies and Procedures;
 - e) Board Diversity
- xiii. Develop and oversee an appropriate internal control system to identify, monitor and manage potential conflicts of interest of Management, Board members and Shareholders;
- xiv. Formulate and approve an Audit Charter;
- xv. Develop and implement a sound enterprise risk management framework to identify, monitor and manage key business risks;

- and to help the board identify units/business lines and enterprise-level risk exposures;
- xvi. Develop a Board Charter that clearly states its role, responsibilities and accountabilities which shall guide the Directors in the performance of their functions;
 - xvii. Adopt a Code of Business Conduct and Ethics;
 - xviii. Establish corporate disclosure policies and procedures in accordance with the best practices and regulatory expectations to ensure a comprehensive, accurate, reliable and timely report to Shareholders and other Stakeholders that gives a fair and complete picture of a Corporation's financial condition, results and business operations;
 - xix. Establish and implement policies on dealings of Directors in Corporation's shares;
 - xx. 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.
 - xxi. 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.
 - xxii. 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.
 - xxiii. 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;
 - xxiv. 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;

- xxv. Establish corporate disclosure policies and procedures of the following material information on individual board members and key executives:
 - a) Qualifications;
 - b) Share ownership in the Corporation;
 - c) Membership in other Boards;
 - d) Other executive positions held;
 - e) Continuous trainings attended;
 - f) Identification of Independent Directors.
- xxvi. Establish corporate disclosure policies and procedures on the remuneration of Directors and key executive officers, in the Annual Corporate Governance;
- xxvii. Establish corporate disclosure policies and procedures governing Related Party Transactions and other unusually or infrequently occurring transactions;
- xxviii. Establish corporate disclosure policies and procedures on acquisition and disposal of significant assets which could adversely affect the viability or interest of the Shareholders and other Stakeholders;

Appoint an independent party to evaluate the fairness of the transaction price in an acquisition or disposal of assets.
- xxix. Establish corporate disclosure policies and procedures on non-financial information, including but not limited to management of economic, environmental, social and governance issues which underpin sustainability;
- xxx. Establish policies and procedures in maintaining a comprehensive and cost-efficient communications channel/s, taking advantage of media and analysts' briefings as channels of communication to ensure timely and accurate dissemination of information to the Shareholders, Stakeholders and the public.
- xxxi. Ensure that basic Shareholder rights are disclosed in the Manual on Corporate Governance and on the Corporation's website.
- xxxii. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.

- xxxiii. 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.
- xxxiv. Appoint a Compliance Officer who shall have the rank of at least Senior Vice President.

c. Specific Duties and Responsibilities of a Director

A Director shall have the following duties and responsibilities:

- i. Conduct fair business transactions with the Corporation and ensure that personal interest does not bias Board decisions nor conflict with the interests of the Corporation;
- ii. Abstain from participating in deliberations of any transaction affecting the Corporation in which he/she has a material interest;
- iii. Disclose to the Corporation any dealings with the Corporation's shares within five (5) business days
- iv. Devote time and attention necessary to properly discharge his/her duties and responsibilities;
- v. Act judiciously and exercise independent judgment;
- vi. Act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Corporation and its Shareholders;
- vii. 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;
- viii. To observe confidentiality; and,
- ix. To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.

d. 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.

e. 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.
- x. Any Independent Director who has served on the Board for a maximum cumulative term of nine (9) years, except if (a) elected as a non- Independent Director or (b) retained as Independent Director on meritorious grounds.

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.

f. 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 Corporate Governance 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 Corporate Governance 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 Corporate Governance 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.

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.

g. 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.

The remuneration of Officers and employees of the Corporation exercising control functions, such as risk management, compliance, and internal audit, shall be determined independently of any business line being overseen. To avoid compromising their independence, performance measures of these Officers and employees shall be based on the achievement of their objectives.

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

h. 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.

3.2.2 The Chairman of the Board

To avoid interference from the Management, the Chairman of the Board shall not sit as the Chairman of the Audit Committee.

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) Make certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the Corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
- b) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the President, Management and the Directors; and
- c) Ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chairman may deem necessary;
- d) Maintain qualitative and timely lines of communication and information between the Board and Management
- e) Guarantee that the Board receives accurate, timely, relevant, insightful, concise and clear information to enable it to make sound decisions;
- f) Facilitate discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual Directors;
- g) Ensure that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- h) Assure the availability of proper orientation for first-time Directors and continuing training opportunities for all Directors;
- i) Make sure that performance of the Board is evaluated at least once a year and discussed/ followed up on; and
- j) Ensure effective communication with Shareholders;
- k) Ensure constructive relations between the Board and Management; and
- l) Promote high standards of corporate governance.

3.2.3 Board Committees

The Board should establish such Committees so as to aid performing and implementing specialized functions and tasks.

The Board should establish such Committees it may deem necessary to aid in complying with the principles of good corporate governance.

If a Committee recommended by the Code of Governance is not established, the functions of such Committee may be performed by the whole Board or by another Committee.

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.

The Chairman of the Audit Committee shall not be the Chairman of the Board.

Each member shall have at least an adequate understanding or competence of most of the Corporation's financial management systems and environment.

- ii. The Audit Committee should periodically meet the head of the Internal Audit/ Chief Audit Executive.
- iii. The Audit Committee may also serve as the Corporation's Board Risk Oversight Committee and/or Related Party Transaction's Committee, in case none has been separately established.
- iv. Duties and Responsibilities
 - o Assist the Board by overseeing the Corporation's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations;
 - o Recommend the approval the Internal Audit Charter, which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the Internal Audit Charter;

- Through the Internal Audit Department, monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, integrity of financial reporting and security of physical and information assets.
- Develop internal control procedures and processes that will provide a system of checks and balances in order to safeguard the Corporation's resources and ensure their effective utilization, to prevent occurrence of fraud and other irregularities, protect the accuracy and reliability of the Corporation's financial data, and ensure compliance with applicable laws and regulations.
- Oversee the Internal Audit Department and recommend the appointment and/or grounds for approval of an internal audit head/Chief Audit Executive. The Audit Committee should also approve the terms and conditions for outsourcing internal audit services.
- Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfil his duties and responsibilities. The Internal Auditor should directly report to the Audit Committee.
- Review and monitor Management's responsiveness to the Internal Auditor's findings and recommendations.
- Prior to the commencement of the audit, discuss with the External Auditor the nature, scope and expenses of the audit, and ensure the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.
- Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically review the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the Corporation's overall consultancy expenses. The Audit Committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence (As defined by the Code of Ethics for Professional Accountants). The non-audit work, if allowed, should be disclosed in the Corporation's Annual Report and Annual Corporate Governance Report.

- Review and approve the Interim and Annual Financial Statements before their submission to the Board with particular focus on the following matters:
 - Any change/s in accounting policies and practices;
 - Areas where a significant amount of judgment has been exercised;
 - Significant adjustments resulting from the audit;
 - Going concern assumptions;
 - Compliance with accounting standards; and
 - Compliance with tax, legal and regulatory requirements.
- Review the disposition of the recommendations of the External Auditor's management letter.
- Perform oversight functions over the Corporation's Internal and External Auditors. It should ensure the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.
- Coordinate, monitor and facilitate compliance with laws, rules and regulations.
- Recommend to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the Corporation, and provide an objective assurance on the manner by which the financial statements should be prepared and presented to the Shareholders.
- Assess the integrity and independence of external auditors.
- Disclose the nature of non-audit services performed by the External Auditor in the Annual Report.

The Audit Committee, unless a separate Board Risk Oversight Committee is established, performs the following:

- Assist the Board in ensuring that there is an effective and integrated risk management process in place.
- Develop a formal enterprise risk management plan which contains the following elements:
 - Common language or register of risks;

- Well-defined risk management goals, objectives and oversight;
 - Uniform processes of assessing risks and developing strategies to manage prioritized risks;
 - Designing and implementing risk management strategies;
 - Continuing assessments to improve risk strategies, processes and measures.
- Oversee the implementation of the enterprise risk management plan through a Management Risk Oversight Committee.
 - Conduct regular discussions on the Corporation's prioritized and residual risk exposures based on regular risk management reports, and assess how the concerned units or offices are addressing and managing these risks.
 - Evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness.
 - Revisit defined risk management strategies, look for emerging or changing material exposures, and stay abreast of significant developments that seriously impacts the likelihood of harm of loss.
 - Advise the Board on its risk appetite levels and risk tolerance limits.
 - Review at least annually the Corporation's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Corporation.
 - Assess the probability of each identified risk becoming a reality and estimate its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Corporation and its Stakeholders.
 - Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Corporation. This function includes regularly receiving information on risk exposures and risk management activities from the Management.

- Report to the Board on a regular basis, or as deemed necessary, the Corporation's material risk exposures, the actions taken to reduce the risks, and recommend further action or plans as necessary.

The Audit Committee, unless a separate Related Party Transactions Committee is established, shall perform the following:

- Review all material related party transactions of the Corporation.
- Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors.
- Evaluate all material related party transactions to ensure that these are not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transaction. In evaluating related party transactions, the Committee takes into account, among other, the following:
 - Related party's relationship to the Corporation and interest in the transaction;
 - Material facts of the related party transaction, including the proposed aggregate value of such transaction;
 - Benefits to the Corporation of the transaction;
 - Availability of other sources of comparable products or services; and
 - Assessment of whether the proposed related party transaction is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Corporation should have an

effective price discovery system in place and exercise due diligence in determining a fair price for related party transactions.

- Ensure that appropriate disclosures are made, and/or information is provided to regulating and supervising authorities relating to the Corporation's related party transaction exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interests that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other related parties.
- Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties.
- Ensure that transactions with related parties, including write-offs of exposures, are subject to periodic independent review or audit process.
- Oversee the implementation of the system for identifying, monitoring, measuring, controlling and reporting related party transactions, including a periodic review of related party transaction policies and procedures.

b. Corporate Governance Committee

- i. The Corporate Governance 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. The Corporate Governance Committee serves as the Corporation's Nomination and/or Remuneration Committee, unless a separate Committee(s) is/are established for such purpose.
- iii. Functions, Duties and Responsibilities:
 - Assist the Board in the performance of its corporate governance responsibilities, including the functions formerly assigned to a Nomination and Remuneration Committee.

- Oversee the implementation of the corporate governance framework and periodically review the said framework to ensure that it remains appropriate in light of material changes to the Corporation's size, complexity and business strategy, as well as its business and regulatory environments.
- Oversee the periodic performance evaluation of the Board and its committees as well as executive management, and conduct an annual self-evaluation of its performance.
- Ensure that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement.
- Recommend continuing education/training programs for Directors, assignment of tasks/projects to Board Committees, succession plan for the Board Members and Senior Officers, and remuneration packages for corporate and individual performance.
- Adopt corporate governance policies and ensure that these are reviewed and updated regularly, and consistently implemented in form and substance.
- Propose and plan relevant trainings for the members of the Board.
- Determine the nomination and election process for the Corporation's Directors and define the general profile of the Board Members that the Corporation may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board.
- Establish a formal and transparent procedure to develop a policy for determining the remuneration of Directors and officers that is consistent with the Corporation's culture and strategy as well as the business environment in which it operates.

c. Executive Committee:

- i. The Board shall appoint from among its members an Executive Committee composed of not less than three (3) but not more than five (5) members, three (3) of whom must be Directors and which shall include the President.

The Board of Directors shall have the power at any time to remove and replace the members of, and fill vacancies in, the Executive Committee.

- ii. The Executive Committee, in accordance with the authority granted by the Board or when the Board of Directors is not in session, may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, except with respect to:
 - a. approval of any action for which Shareholders' approval is also required;
 - b. the filling of vacancies in the Board of Directors;
 - c. the amendment or repeal of the By-Laws or the adoption of new By-Laws;
 - d. the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable;
 - e. distribution of cash dividends to the Shareholders; and
 - f. such other matters as may be specifically excluded or limited by the Board of Directors.

Actions taken by the Executive Committee for the Corporation shall be submitted to the Board of Directors at its next meeting for ratification.

3.2.4 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 shall serve a maximum cumulative term of nine (9) years. After which, the Independent Director shall be perpetually barred from re-election as such in the Corporation.

An Independent Director barred from re-election as such may continue to qualify for nomination and election as a non-Independent Director.

In the event the Corporation wants to retain the Independent Director after serving nine (9) years, the Board should provide

meritorious justification/s and seek Shareholders' approval during the Annual Shareholders' Meeting.

The nine-year term shall be reckoned from 2012, pursuant to SEC Memorandum Circular No. 9 Series of 2011.

- c. 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.
- d. 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.
 - e. 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.
 - f. 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.
 - g. 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.

3.2.5 Non- Executive Directors

- a. A Non-Executive Director is one who has no executive responsibility of day-to-day operations of a part or the whole of the Corporation.
- b. A Non-Executive Director should possess such qualifications and stature that would enable him/her to effectively participate in the deliberations of the Board.
- c. A Non-executive Director should not concurrently serve as a Director in more than five (5) publicly-listed Corporations.
- d. In addition to the general functions of a Director, Non-Executive Directors shall hold periodic meetings with the External Auditor, the heads of the Internal Audit Department, Compliance and Risk Functions, without executive Directors.

3.2.6 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 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 Corporate Governance 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 Corporate Governance 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.

Functions, Duties and Responsibilities.

The President shall have the following functions, duties and responsibilities:

- a. Determine the Corporation's strategic direction, and formulate and implement its strategic plan on the direction of the business;
- b. Communicate and implement the Corporation's vision, mission, values and overall strategy and promotes any organization or Stakeholder change in relation to the same;
- c. Oversee the operations of the Corporation and manage human and financial resources in accordance with the strategic plan;
- d. Keep up-to-date with Corporation's industry, market and the core business purpose;
- e. Direct, evaluate and guide the work of the Key Officers of the Corporation;

- f. Manage the Corporation's resources prudently, and ensure a proper balance of the same;
- g. Provide the Board with timely information, and interface between the Board and the employees;
- h. Build the corporate culture and motivate the employees of the Corporation; and
- i. Serve as a link between internal operations and external Stakeholders.

3.2.7 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. The Corporate Secretary shall not hold the position of the Compliance Officer.
- d. 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.
- e. The Corporate Secretary shall attend training on corporate governance annually.
- f. **Duties and Responsibilities**
 - i. Assist the Board and the Board Committees in the conduct of meetings;
 - ii. Prepare the annual schedule of Board and Committee meetings;
 - iii. Assist the Chairpersons of the Board and the Committees in preparing agenda items;

- iv. 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;
- v. 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;
- vi. Keep abreast on relevant laws, regulations, all governance issuances, relevant laws, regulations, all governance issuances, relevant industry developments and operations of the Corporation, and advises the Board and the Chairman on all relevant issues as they arise;
- vii. Work fairly and objectively with the Board, Management, Shareholders and other Stakeholders, and contribute to the flow of information between the Board and the Management, the Board and the Committees, and the Board and its Stakeholders, including the Shareholders;
- viii. 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;
- ix. Perform required administrative functions;
- x. Oversee the drafting of the By-Laws and ensure that they conform with regulatory requirements;
- xi. Ensure that all Board procedures, rules and regulations are strictly followed by the members;
- xii. Submit a certification to the SEC every 30th of January of the year regarding the attendance of the Directors during Board meetings, countersigned by the Chairman of the Board; and
- xiii. Perform such other duties and responsibilities as may be provided by the SEC.

3.2.8 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.

3.2.9 Chief Audit Executive

- a. The Board may appoint a Chief Audit Executive from the recommendation of the Audit Committee.
- b. If the Corporation outsources its internal audit activities, a qualified Independent Executive or a Senior Management personnel shall be assigned as the Chief Audit Executive, who shall have responsibility over the management of the outsourced internal audit executive.
- c. The Chief Audit Executive shall have the following duties and responsibilities:
 - i. Oversee and be responsible for the internal audit activity of the Corporation;
 - ii. Periodically review the internal audit charter and presents it to Senior Management and the Audit Committee for approval;

- iii. Establish a risk-based internal audit plan, including policies and procedures to determine the priorities of the internal audit activity, consistent with the Corporation's goals;
- iv. Communicate the internal audit activity's plans, resource requirements, and impact of resource limitations, as well as significant interim changes, to Senior Management and the Audit Committee for review and approval;
- v. Spearhead the performance of the internal audit activity to ensure it adds value to the Corporation;
- vi. Report periodically to the Audit Committee on the internal audit activity's performance relative to its plan;
- vii. Present findings and recommendations to the Audit Committee and give advice to Senior Management and the Board on how to improve internal processes.
- viii. 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;
- ix. Examine financial transactions for accuracy and compliance with institutional policies and applicable laws and regulations;
- x. Evaluate financial and operational procedures to assure adequate internal controls are present;
- xi. 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;
- xii. Direct research and strategic planning efforts related to tax issues; and
- xiii. Advise senior management on policy and procedure developments with respect to tax issues.

3.2.10 Chief Risk Officer

- a. When deemed necessary, the Board shall appoint a Chief Risk Officer who shall manage the risk exposures of the Corporation through the Enterprise Risk Management System.
- b. The Chief Risk Officer shall have adequate authority, stature, resources and support to fulfill his/her responsibilities.
- c. The Chief Risk Officer shall perform the following functions:
 - i. Supervise the Enterprise Risk Management System process;
 - ii. Spearhead the development, implementation, maintenance and continuous improvement of the Enterprise Risk Management processes and documentation;
 - iii. Communicate top risks and the status of implementation of risk management strategies and action plans to the Audit Committee, functioning as the Risk Oversight Committee;
 - iv. Collaborate with the Chief Executive Officer in updating and making recommendations to the Risk Oversight Committee;
 - v. Suggest Enterprise Risk Management policies and related guidance, as may be needed;
 - vi. 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;
 - vii. 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;
 - viii. Identify and prioritize existing risks—that are material to the Corporation;
 - ix. Monitoring business activities to periodically reassess risks and the effectiveness of controls to manage such risks and;
 - x. Supply the Board with quarterly reports on the risk management process.

- d. In the event that a separate Chief Risk Officer has not been appointed or designated, the President shall fulfill said role in accordance with the Corporation's Enterprise Risk Management Framework.

3.2.11 Investor Relations Officer

- a. The Board may appoint an Investor Relations Officer who shall ensure constant engagement with the Corporation's Shareholders.
- b. The Investor Relations Officer shall have the following functions:
 - i. Receive feedback, complaints, and queries from Shareholders regarding the activities and policies of the Corporation; and
 - ii. Attend every Shareholders' Meeting to assist the needs of the Shareholders.

3.2.12 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.

3.2.13 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, President 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.

3.2.14 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.

3.2.15 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.

3.2.16 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.

3.2.17 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.

3.2.18 Annual Internal Audit Plan

Based on a risk assessment of the Corporation, the Chief Audit Executive, 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.

IV. 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:

- 4.1 The Corporate Governance Committee or a separate Nomination Committee shall conduct the nomination of Directors 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 Corporate Governance Committee and the Corporate Secretary at least forty five (45) calendar days before the date of the actual meeting.
- 4.2 The Corporate Governance 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.
- 4.3 After the nomination, the Corporate Governance 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.
- 4.4 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.
- 4.5 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.

- 4.6 Specific slots for Independent Directors shall not be filled up by unqualified nominees.
- 4.7 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.
- 4.8 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 Corporate Governance Committee. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his/her predecessor in office.

V. ORIENTATION OF NEW MEMBERS OF THE BOARD OF DIRECTORS

All first-time Directors should undergo an eight (8) hour orientation program on the following matters:

- a. Duties and responsibilities of a Director;
- b. Roles of a Director;
- c. Accountabilities of a Director;
- d. Code of Conduct of Directors;
- e. Background on the business and industry of the Corporation
- f. SEC-mandated topics on Corporate Governance.

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.

VI. BOARD EDUCATION

The Board recognizes the importance of continuing education of its members. All Directors of the Corporation should take at least four (4) hours of continuing education or training on the following matters:

- a. Developments in the business environment;
- b. Developments in rules and regulations of concerned regulatory agencies;
- c. Corporate governance matters such as, but not limited to, audit, internal controls, risk management, sustainability, and strategy.

The Board acknowledges that the continuing education of its Directors 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 Corporate Governance Committee, will assist the Board in pursuing continuing education programs for its Directors.

VII. RELATED PARTY TRANSACTIONS

7.1 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 Shareholders' 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.

7.2 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.

7.3 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.

7.4 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.
- d. The Board shall adopt a whistle-blowing mechanism, outlining the procedure to allow employees to freely communicate their concerns about illegal and/or unethical practices without fear of retaliation. The mechanism shall also provide safeguards to secure the confidentiality of the informer. The Board may designate an Independent Director, who will handle whistle-blowing concerns.

VIII. RISK MANAGEMENT

8.1 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 "Enterprise Risk Management Framework") 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.

8.2 Benefits

Listed below are some of the benefits of establishing, implementing and maintaining an Enterprise Risk Management Framework:

- 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.

8.3 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.

8.4 Enterprise Risk Management Framework

The Board and/or the Management shall operationalize an Enterprise Risk Management Framework, 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.

8.5 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.

8.6 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).

8.7 Annual Review

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

IX. RETIREMENT AND SUCCESSION POLICY

- 9.1 Any Director, Management and other Key Officers of the Corporation may be retired upon reaching the retirement age of 60 years old. However, on justifiable grounds, the Board may retain a Director, Management and other Key Officers in the same position/remuneration even after attaining the retirement age, for the benefit of the Corporation.
- 9.2 The Board, through the Corporate Governance Committee, shall identify the key knowledge, skills and abilities pertaining to the Directors, Officers and Management Personnel covered by this Section

The key knowledge, skills and abilities identified by the Board shall serve as the benchmark for the succession by new Directors, Officers, and

Management Personnel and shall serve as guide in formulating the programs for seminars and training of the Directors, Officers, and Management Personnel.

- 9.3 The Board should ensure that leadership in the Corporation shall be transferred to highly competent and qualified individuals.
- 9.4 The Corporation shall disclose its succession, termination and retirement policy pertaining to its Directors and Key Officers.

X. ALTERNATIVE DISPUTE RESOLUTION MECHANISM

- 10.1 The Board should establish, at the option of a Shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner. It is important for Shareholders to be well-informed of the Corporation's processes and procedures when seeking to redress the violation of their rights. Putting in place proper safeguards ensures suitable remedies for the infringement of Shareholders' rights and prevents excessive litigation.

XI. COMMUNICATION PROCESS

- 11.1 This Manual shall be available for inspection by any Shareholder of the Corporation at reasonable hours on business days.
- 11.2 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.
- 11.3 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.

XII. REPORTORIAL OR DISCLOSURE SYSTEM OF CORPORATION'S CORPORATE GOVERNANCE POLICIES

- 12.1 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.
- 12.2 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 Shareholders to mismanage the Corporation or misappropriate its assets. It is therefore essential that all material information about the Corporation which could adversely affect its viability or the 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 Philippine Stock Exchange mechanisms for listed companies and submissions to the SEC for the interest of its Shareholders and other Stakeholders.

12.3 The following matters should be disclosed accordingly:

- a. Dealings of Director's with the Corporation's shares;
- b. Material information about individual Directors, including but not limited to:
 - (i) Qualifications;
 - (ii) Share ownership
 - (iii) Membership in other Boards
 - (iv) Other Executive Positions
 - (v) Continuing Training attended
- c. Remuneration of Directors and Management
- d. Policies on Related Party Transactions;
- e. Material and/or significant Related Party Transactions approved by the Board and/or the Shareholders; and
- f. Acquisition of significant assets and other material transactions.

12.4 The reports and 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.

12.5 All disclosed information shall be released via the approved stock exchange procedure for Corporation 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.

XIII. SHAREHOLDERS' BENEFITS

Each Shareholder shall enjoy all the rights under the Corporation Code, other relevant laws of the Republic of the Philippines, implementing rules and regulations, including, but not limited to:

- a. Voting Rights;

- b. Right to Dividends;
- c. Right to Inspect Corporate Records;
- d. Right to Information;
- e. Appraisal Right
- f. Right to Call Meetings
- g. Right to Notice

13.1 **Voting Rights**

All Shareholders, including minority Shareholders, 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.

A Director shall not be removed without cause if it will deny minority Shareholders representation in the Board.

13.2 **Right to Dividends**

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

13.3 **Right to Right to Inspect Corporate Records**

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.

13.4 **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.

13.5 **Appraisal Right**

The Shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares.

13.6 **Right to Call Meetings**

The Shareholders shall have the right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual

and/or Special Shareholders' Meetings, subject to the provisions of the Corporation Code and the Corporation's By-Laws.

13.7 Notice of Shareholder's Meetings

Every Shareholder is entitled to Notice of the Annual and Special Shareholder's Meeting in accordance with the provisions of the Corporation's By-Laws, provided that the Notice shall be sent to the Shareholders at least fifteen (15) business days before the meeting and posted on the Corporation's website.

The Notice shall contain the date, venue, and agenda of the meeting. It shall likewise indicate the rationale and explanation of the agenda, and the details of the issues to be deliberated on and approved or ratified during the meeting.

13.8 Minutes of the Shareholders' Meetings and Voting Results

The Minutes of the Annual or Special Shareholder's Meeting should be made available in the Corporation's website within five (5) business days from the end of the meeting.

The voting results of any matter submitted to the approval or ratification of the Shareholders of the Corporation during the Annual or Special Shareholders' Meeting shall be made available publicly on the next working day.

13.9 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.

XIV. ENCOURAGING EMPLOYEE'S PARTICIPATION

- 14.1 The Board should establish policies, programs and procedures that encourage employees to actively participate in the realization of the Corporation's goals and in its governance. The establishment of policies and programs covering among others, the following: (1) health, safety and welfare; (2) training and development; and (3) reward/compensation for employees, encourage employees to perform better and motivates them to take a more dynamic role in the Corporation. Active participation is further fostered when the Corporation recognizes the firm-specific skills of its employees and their potential contribution in corporate governance. The employees' viewpoint in certain key decisions may also be considered in governance processes through work councils or employee representation in the Board.

XV. BUSINESS CONDUCT AND ETHICS

- 15.1 The Board should adopt a Code of Business Conduct and Ethics, which should set forth the standards for professional and ethical behavior, as well as acceptable and unacceptable conduct and practices for internal and external dealings.
- 15.2 The Code of Business Ethics and Conduct should contain an Anti-Corruption Policy, which should encourage employees to report corrupt practices. The policy should outline procedures on how to combat these corrupt practices.
- 15.3 The Board shall ensure that internal controls are in place for the proper implementation of the Code of Business Conduct and Ethics.

The implementation should include communication channels, training and awareness campaigns to inculcate the Corporation's ethics policy into the corporate culture.

- 15.4 The Code of Business Conduct and Ethics should be disseminated to the Board, Management, and Employees.

It should likewise be disclosed and made available to the public through the Corporation's website.

XVI. POLICY ON CONFLICT OF INTEREST

- 16.1 Directors, Officers and Employees shall always advance the interest of the Corporation over their personal interests. They are required to be loyal to the Corporation so much so that they may not directly or indirectly take undue advantage of their position in the Corporation. They must promote the common interest of all Shareholders and other Stakeholders, and the Corporation without regard to their own personal interests.
- 16.2 A conflict of interest exists when a Director, Officer or Employee of the Corporation has or acquires any personal or pecuniary interest which is incompatible with their respective duties. Conflict of interest exists when a Director, Officer or Employee -
- a. Supplies or is attempting or applying to supply goods or services to the Corporation;
 - b. Supplies or is attempting to supply goods, services or information to an entity in competition with the Corporation;
 - c. Acquires or is attempting to acquire for himself a business opportunity which should belong to the Corporation;
 - d. Accepts any form of gifts or invitations from a supplier, customer or business partner of the Corporation, or from any third person or entity with existing or intended business dealings with Corporation, except when the gift or invitation is directly attributable to purely familial or personal relationships, only of nominal value, a simple promotional item or is part of the supplier's public relations program or part of business meetings or discussions;
 - e. Engages in a business or activity which competes with or works contrary to the best interests of the Corporation;
 - f. Uses material company information of which they may have knowledge and/or access by reason of their office in, or employment with, the Corporation to their personal advantage or the advantage of any third party to the prejudice of the Corporation.

- 16.3 If an actual or potential conflict of interest should arise on the part of the Directors, the concerned Director shall not participate in the discussion of, and vote on, the matter where he is in conflict of interest. A Director who has a continuing conflict of interest of a material nature should either resign or, if the Board deems appropriate, be removed from the Board.
- 16.4 A contract of the Corporation with one or more of its Directors is voidable, at the option of the Corporation, unless all the following conditions are present:
- a. The presence of such Director in the Board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
 - b. The vote of such Director was not necessary for the approval of the contract;
 - c. The contract is fair and reasonable under the circumstances;
 - d. In case of an Officer, the contract has been previously approved by the Board of Directors.

Where any of the first two conditions set forth in the preceding paragraph is absent in the case of a contract with a Director, such contract may be ratified by the vote of Shareholders representing two-thirds (2/3) of the outstanding capital stock in a meeting called for that purpose; provided that full disclosure of the adverse interest of the Director involved is made at such meeting; and provided further that the contract is fair and reasonable under the circumstances.

- 16.5 Where a Director, by virtue of his office, acquires for himself a business opportunity which should belong to the Corporation, thereby obtaining profits to the prejudice of the Corporation, the Director must account to the latter for all such profits by refunding the same, unless his act has been ratified by a vote of the Shareholders owning or representing at least two-thirds (2/3) of the outstanding capital stock. This provision shall be applicable notwithstanding the fact that the Director risked his own funds in the venture.
- 16.6 Directors, Officers and Employees who have personal or pecuniary interest on any enterprise with which the Corporation has an existing or intended transaction shall fully disclose the relevant facts of the situation to the Chairman of the Board. Any information disclosed under this rule shall be treated as confidential except to the extent necessary to evaluate the situation and pre-empt the conflict of interest. This disclosure requirement shall apply to transactions between the Corporation and any enterprise owned by, or in which there is

pecuniary interest in the part of, any family or close personal relations of the Directors, Officers and Employees.

The foregoing is without prejudice to the Corporation's existing Code of Conduct and Ethics for Directors, officers and employees.

XVII. ENCOURAGING SUSTAINABILITY AND SOCIAL RESPONSIBILITY

The Corporation shall recognize and place an 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.

XVIII. MONITORING AND ASSESSMENT

18.1 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.

18.2 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.

XIX. PENALTIES FOR NON COMPLIANCE WITH THE MANUAL

19.1 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:

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

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

19.1.3 For third violation, the maximum penalty of removal from office shall be imposed.

19.2 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.

- 19.3 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 31st day of May 2017 at Makati City.


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


ADELIA D. VASQUEZ
Compliance Officer/ Chief Finance Officer