

CORPORATE GOVERNANCE MANUAL

Introduction

The Manufacturers Life Insurance Co., (Phils.), Inc. (“Manulife Philippines”) Board of Directors, through this Corporate Governance Manual, hereby recognizes its primary responsibility to ensure effective good corporate governance oversight throughout the organization.

This Corporate Governance Manual shall be applied suppletorily to any applicable laws and regulations of the Company. In the event of conflict between the laws or regulations or the charter or by-laws pertaining to corporate governance, the provisions in the laws or regulations shall prevail.

The Board may modify or make exceptions to this Corporate Governance Manual from time to time, in its discretion in accordance with the fiduciary duties and responsibilities of the Board to the Company’s stakeholders.

Commitment to Good Corporate Governance¹

The Board of Directors (“Board”), Management, Officers and Employees of Manulife Philippines hereby commit themselves to the principles of good corporate governance acknowledging that the same is an essential pillar in attaining corporate objectives, strengthening stakeholders confidence, sustaining growth and contributing to the economic well-being in any jurisdiction where Manulife operates.

Objective

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

Governing Principles of Good Corporate Governance

The corporate governance framework for Manulife Philippines shall be governed by the following principles:

1. Manulife Philippines shall, at all times, comply with the law and applicable regulatory mandates on good corporate governance and adopt international best practices as may be applicable and beneficial to the organization;
2. Timely and accurate disclosure shall be made on material matters regarding the Corporation, including its financial situation, performance and governance as required by applicable laws and regulations relating to the business of insurance; and,
3. The strategic guidance of the Company shall be in accord with the objectives set by the Board, effective monitoring and oversight of Management by the Board, and the Board’s accountability to the Company’s stakeholders.

¹ SEC Memorandum Circular No. 6, Revised Code of Corporate Governance

Promotion of Good Corporate Governance

The Board of Directors, Officers, and Employees believe that good corporate governance is an integral component of sound strategic management and will therefore undertake every effort necessary to create awareness within the Company.

Compliance with the principles of good corporate governance shall start with the Board being primarily responsible for providing independent oversight of the management of the business and affairs of the Company. The Board, shall, directly or through a Board Committee, carry out the duties specifically mandated in this Manual.

The promotion of good corporate governance shall be aligned with the Company's trust of fostering a culture of integrity throughout the organization and ensuring compliance with the Company's Code of Business Conduct and Ethics.

The Board shall oversee the Company's communication and disclosure of corporate practices relating to corporate governance practices and require timely, accurate and fair release of such information in compliance with all legal and regulatory requirements.

General Responsibility of Directors

I. Duties of Directors

A Director's duty is owed first and foremost to the Company. This duty is grounded in basic principles of good faith, stewardship and accountability. Requirements imposed both by the law and various regulations seek to establish the parameters of this duty, without limiting the flexibility of these principles.

(a) Function of the Board

The Directors' role is one of stewardship. Directors are responsible for managing or supervising the management of the business and affairs of the Company.

The Board of Directors of the Company is (re-)elected by or under the authority of its shareholder(s).

Although a Director of the Company is designated as either a "director" or an "independent non-executive director", both groups of Directors owe identical duties to the Company.

Each Director must act honestly and in good faith with a view to the best interests of the Company and must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Delegation is permitted with certain exceptions (delineated below) and must be reasonable in the circumstances, but responsibility for major decisions and the exercise of general discretion will always be the responsibility of the Directors.

(b) Oversee Versus Manage

The complexities of modern business impose a number of constraints on the ability of Directors to manage or even to supervise the management of a corporation.

Independent non-executive Directors are not required to devote their full time and attention to the corporation's affairs. Rather, they perform their functions periodically, primarily in preparing for, attending and participating in meetings of the Board.

While Directors may provide general direction to the Company, they must delegate much of the responsibility for managing the affairs of the Company to others. Therefore, Directors oversee rather than actively manage the Company's business and affairs.

Responsibility for the day-to-day management of Company's affairs is delegated to the Chief Executive Officer and other senior executives who are responsible to, and report back to, the Board from time to time.

The relationship between the Board and senior management is critical to good corporate governance. The Board must have confidence in the abilities, judgment and integrity of the Company's senior executives.

Communication and candor between the Board and management are critical if the Board is to be confident that it is being kept fully abreast of issues and developments facing the Company.

Directors must be sufficiently familiar with the business and affairs of the Company to know that the Company is being managed in an appropriate fashion. They must exercise sufficient leadership to ensure that the Company is following a course that they have approved.

While the day-to-day management of the Company remains in the hands of its senior management as a matter of practical necessity, the monitoring role of the Board must be a pro-active and effective one if the Directors are to carry out their duties properly.

(c) *Delegation*

The Board is not in a position to manage directly the day-to-day affairs of the Company, it thus, delegates certain responsibilities to committees of the Board, as well as to management.

In delegating their responsibilities, Directors must be satisfied from a business perspective that the person or committee to whom it is delegated is best able to handle a given task. The Directors must also ensure themselves that delegated responsibilities are appropriately exercised.

Certain responsibilities are generally considered sufficiently important that Directors may not delegate them. In the addition to those provided in the relevant laws and regulations, the following responsibilities cannot likewise be delegated:

1. submitting to shareholders a question or matter requiring the approval of shareholders;
2. declaring a dividend on shares or a policy dividend, bonus or other benefit payable to policyholders, other than a dividend on a group policy that is a participating policy;
3. authorizing the redemption or issuance by the Company of shares or debt;
4. approving the annual statement of the Company and any other financial statements issued by the Company; or
5. adopting, amending or repealing by-laws.

Regardless of the responsibilities delegated to a committee of the Board, certain matters falling within the mandate of that committee may nevertheless be matters which should properly be returned to the full Board for consideration, such as matters of policy or issues outside the ordinary course of the Company's business.

The committees of the Board cannot formally approve the matters before them but return the matter to the full Board with their recommendations.

(d) Committees

The Board shall constitute the following Committees² where it may delegate its duties and responsibilities from time to time:

1. Nomination Committee

The Nomination Committee shall assist the Board of Directors in ensuring that all nominations to the Board as well as those being considered for other positions requiring approval of the board are duly deliberated, reviewed and evaluated.

The Nomination Committee shall be composed of at least three (3) members of the Board of Directors, majority of whom shall be independent directors, including the Chairperson.

The Committee shall review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring approval by the Board of Directors.³

ChairpersonThe Committee shall consider the following guidelines in the determination of the number of directorship for the Board:

- i. The nature of the business of the corporation, where he is a director;
- ii. Age of the director;
- iii. Number of directorship/active memberships and officerships in other corporations or organizations; and,
- iv. Possible conflicts of interest.

Generally, the optimum number shall be proportional to the capacity of a director to perform his duties diligently.

2. Audit Committee

The Audit Committee shall be comprised of at least three (3) members, majority of whom shall be independent directors preferably with accounting and finance experience.

The Committee shall have the following responsibilities:

- i. Provide oversight of the Company's internal and external auditors
- ii. Set-up of internal audit department and appoint internal auditors and independent external auditors; and,
- iii. Monitor and evaluate the adequacy and effectiveness of the internal control system of the Company.

3. Remuneration Committee

² IC Circular 31-2005 – Corporate Governance Principles and Leading Practices

³ Nomination Committee Terms of Reference

The Remuneration Committee shall be composed of at least three (3) members, majority of whom shall be independent directors.

The Remuneration Committee is primarily tasked to monitor the structure and level of remunerations for senior management and corporate officers. It shall judge or make plans where to position the Company relative to other companies but such comparisons shall be used with caution in view of the risk of an upward ratchet of the level of remuneration with no corresponding improvement in performance.

The Committee shall also be responsible in setting up remunerations for all executive directors and Chairperson and shall recommend and monitor the level and structure of salaries including remunerations for senior management. The Committee shall delegate responsibilities for setting up remunerations for all executive directors and Chairperson, including pension rights or any compensation payments.⁴

(e) Mandate of the Board

The Board performs certain functions and is normally involved in considering significant issues facing the Company. For the most part, management recommends what matters are put before the Board.

Among the matters that should generally be put before the Board are:

1. reviewing and approving the Company's business plans prepared by management and monitoring the performance of the Company against these plans;
2. considering the business risks and the Company's risk management mechanisms and internal control and management information systems;
3. reviewing and approving financial statements, major capital expenditures, raising capital and other major financial activities;
4. monitoring and evaluating executive performance, hiring, compensation, assessment, development and succession;
5. considering issues relating to the Company's line of business and decisions regarding the allocation of resources to lines of business (though as a practical matter, the Board may take instructions based on Divisional reporting lines);
6. approving the appointment of senior management, at the instruction of the shareholder(s);
7. reviewing and approving organizational restructurings, mergers, acquisitions and divestitures; and
8. ensuring the integrity of communications between the Company and its stakeholders.

⁴ Remuneration Committee Terms of Reference

In order for a Board of Directors to discharge its responsibilities, it must not only be aware of and approve the general direction and plans of the Company, it must also be satisfied that the plans which it has approved are being implemented consistently and that appropriate monitoring and audit systems are in place to ensure that the Company's affairs are being run responsibly. This is done in part by the process of reviewing and approving such things as strategic plans and operating plans, and by seeking and relying on the advice of experts, both from within the ranks of the Company's management and, where appropriate, from outside the Company.

The Board receives audit results from the Company's audit department and other internal control functions, as well as from outside experts or advisors who performed the audit and who are also in a position to explain the results and their implications to the Directors.

(f) Separation of Accountabilities

Ultimately, it is the Chairperson who determines the effectiveness of the Board's operations. The President and Chief Executive Officer (CEO), reporting to the Board in turn has responsibility for the general management of the Company.

The Chairperson of the Board cannot currently serve as the President and CEO of the Company to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision.⁵

The Chairperson of the Board shall be a non-executive director.⁶

The respective accountabilities of each are highlighted as follows:

(g) Accountabilities of the Chairperson of the Board

The Board of Directors has the ultimate authority and responsibility for the Company. The Chairperson represents the Board and his principal accountabilities generally must include:

1. managing the affairs of the Board and monitoring its effectiveness; building and managing the composition and structure of the Board; ensuring constant and continuous renewal of the Board; setting standards of performance and job descriptions for Board and committee members; managing the Board and its meetings by preparing meaningful agendas and guiding its deliberations so that appropriate strategic and policy decisions are made;
2. in cooperation with the CEO:
 - i. setting the Board agendas and ensuring that the Company's strategic direction, including the Company's vision/mission/values, is defined and communicated

⁵ 2015 ASEAN Corporate Governance Scorecards, IC Circular 31-2005, Corporate Governance Principles and Leading Practices

⁶ IC Circular 31-2005, Sept. 26, 2005

to the Board for its approval and that all matters of strategic importance are being dealt with at the Board level during the course of the year;

- ii. ensuring the selection of candidates to the Board acceptable to the shareholder(s); and
- iii. recommending committee compositions to the Board.

(h) Accountabilities of the President and Chief Executive Officer

Reporting to the full Board, (as one of its members in certain instances), the President and Chief Executive Officer has the responsibility for the management of the strategic and operational matters of the Company and is responsible for the execution of the Board's directives and policies. Principal accountabilities include:

- 1. developing, along with the Board, the Company's strategic direction and the monitoring thereof, and directing the overall business operations of the Company;
- 2. collaborating with the Chairperson in the setting of Board agendas; and ensuring that the Board is kept appropriately informed of the overall business operations of the Company and major issues facing the Company;
- 3. as the leading executive officer for the Company, has ultimate accountability for the development and execution of the strategy and policies of the Company and their communication to the Company's key internal and external stakeholders;
- 4. putting in place the Company's organizational structure, business plans and budgets to meet goals and objectives, as agreed to with the Board of Directors;
- 5. responsible for the day-to-day operations of the Company, including annual planning process, capital management, financial management, new market entry (product and geographic), acquisitions, divestitures, etc.; all of which must be accomplished within the strategic framework of the Company;
- 6. responsible for the hiring, compensation, performance assessment, leadership development and succession planning of management resources;
- 7. ensuring the efficient utilization of the Company's available resources to meet the Company's strategic objectives, including short-term and long-term growth and profitability objectives;
- 8. representing the Company to its major stakeholders, including shareholders and policyholders, the financial community, governments and the public;
- 9. ensuring that the Board's policies with respect to ethical and moral standards are met and the Company is in full compliance with applicable laws and regulations; and
- 10. developing an awareness of global trends in business and in financial services specifically with a view to becoming an industry leader on strategic issues and

providing leadership in managing change and ensuring that the culture of the Company enables it to respond to the new environment.

(i) Accountabilities of Individual Directors

The accountabilities set out below are meant to serve as a framework to guide individual Directors in their participation on the Board, with a view to enabling the Board to meet its duties and responsibilities. Principal accountabilities include:

1. maintaining a general but clear understanding of the Company, its strategic and financial plans and objectives, emerging trends and issues, significant strategic initiatives and capital allocations and expenditures, risks to the Company and management of those risks, internal systems, processes and controls, its compliance with applicable laws and regulations and governance, audit and accounting principles and practices, and the Company's management team who are accountable to meet these duties;
2. preparing appropriately for each Board and committee meeting by reviewing materials provided and requesting, where appropriate, information that will allow the Director to properly participate in the Board's deliberations, probe management and make informed business judgments;
3. attending as many Board and committee meetings as possible, and actively participating in deliberations and decisions. Where this is not possible a Director should become familiar with the matters covered at the meeting;
4. voting (for, against, or abstaining) on all decisions of the Board or its committees, except where there is a conflict of interest of a Director in respect of a particular matter;
5. preventing their own interests from conflicting with, or appearing to conflict with, the interests of the Company and disclosing details of such conflicting interests should they arise; and
6. acting in the highest ethical manner and with integrity in all personal and professional dealings.

II. Standards of Performance

The below standards shall be aligned and shall always comply with any applicable laws and regulations relating to the prescribed standard of conduct of Directors.

(a) Fiduciary Duty

A Director's fiduciary responsibility to the Company is the overriding principle governing the Director's behavior. However, in considering a particular transaction or course of action, the Director must have due regard for the interests of the internal and external stakeholders.

This long-standing common law principle governs all aspects of the Directors' relationship to their corporation that Directors act "honestly and in good faith with a view to the best interests of the Company" in exercising their powers and discharging their duties.

The fiduciary relationship dictates a strict standard of conduct which includes loyalty and good faith and requires Directors to avoid putting themselves in a position where their duty to act in the best interests of the Company conflicts with their self-interest.

Both independent and non-independent directors must possess objectivity and independence and must adhere to the same fiduciary standards. The inside Directors have the same fiduciary duty to the Company as independent non-executive Directors.

Directors are not legally precluded from accepting several appointments, but they must carry out their fiduciary obligation to each corporation they serve. However, the President and other Executive Directors shall submit themselves to a low indicative limit (four or lower) on membership in other corporate boards. The same low limit also applies to independent non-executive directors who serve as full-time executives in other corporations.

There can be higher indicative limit (five or lower) for other directors who hold non-executive positions in any corporation. In any case, the capacity of directors to serve with diligence shall not be compromised.⁷

(b) Care, Diligence and Skill

In general, the duty of Directors is to "manage or supervise the management of the business and affairs of a corporation".

In this respect the standard of care expected of Directors is to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The diligence Directors must exhibit in discharging their duties does not mean they will be liable for every error. Rather, they must discharge their duties with the same diligence as a reasonably prudent person would use in comparable circumstances.

Failure to meet the standard often stems from a failure to inquire. It is usually not sufficient for Directors to rely on their personal knowledge of the Company instead of detailed information about the matter before them.

Directors must ask for, and are entitled to receive, all the information they believe necessary to make careful decisions.

Directors who ask questions and are misled or misinformed will still have acted diligently if it was reasonable for them to expect that they could rely on the responses.

Behaving diligently provides Directors with a defense to liability. Directors are also entitled to dissent from any decision of the Board and to have that dissent recorded.

⁷ IC Circular 31-2005

Directors who serve on committees of the Board are faced with similar concerns. These Directors will be better informed about some aspects of the Company's affairs, and this knowledge must be applied in testing management's recommendations and reaching decisions about the Company's affairs.

There is increased responsibility for the members of the Audit Committee who were subject to a greater standard of care, because they had more opportunity to obtain knowledge about and to examine the affairs of the Company than the other Directors.

(c) *Accountability*

Directors are required to discharge their duties "with a view to the best interests of the Company". Traditionally, this phrase has been interpreted to extend only to the shareholders as a whole.

However, in reaching many decisions, Directors will be confronted with a number of competing interests, in addition to those of the shareholders.

It is recognized that acting with a view to the best interests of the Company does not mean that Directors must disregard the interests of other parties or "stakeholders" who may be affected by the actions of the Company. Shareholder's interests are not served by ignoring the implications of business decisions for non-shareholder constituencies such as employees and creditors, and the communities in which the Company carries on business.

III. *Reliance on Management, Financial Statements and Advisors*

The Board delegates to management and is entitled to rely on the information prepared by management, including the financial statements.

Similarly, Directors are entitled to rely on reports of internal or external experts, such as lawyers, actuaries, accountants and other competent appraisers.

(a) *Reliance on Management*

Since Directors must delegate much of their responsibility to the Company's management and since Directors are dependent on management for virtually all of the information they have about the Company, the Directors must be entitled to rely on management and what it tells them, when it is reasonable to do so.

(b) *Reliance on Financial Statements*

Many of the decisions made by the Board of Directors are based on a particular understanding of the financial condition of the Company.

In assessing the Company's financial condition, Directors are dependent not only on the integrity of the internal financial systems but also on management, which prepares the financial information or statements, and on the auditors who review that process and the statements.

IV. Liability and Indemnity

(a) *Managing the Risk*

In agreeing to act as Directors of the Company, individuals accept significant responsibilities and with those responsibilities the risk of being exposed to a host of potentially significant liabilities.

Individuals will likely continue to accept the responsibility of acting as corporate Directors if they are able to minimize the degree of risk to which they are personally exposed. In most cases, this can be accomplished through an appropriate and consistently implemented risk management strategy.

(b) *Discharge of Responsibilities*

The risk of personal liability is minimized if Directors ensure that all duties are discharged fully and all statutory requirements imposing specific liability on Directors have been met.

As a general matter, Directors should commit themselves to attending all meetings of the Board. If absence from a meeting is unavoidable, they should inform themselves fully about what was done and form a view about whether they approve or disapprove of the actions taken.

If they disapprove, they should ensure their dissent is recorded since without their dissent being recorded they will be deemed to have consented, even if they were not present at the meeting or abstained from a particular vote.

Directors should insist that management inform them on a timely basis of all significant or exceptional circumstances that may expose them to liability.

A Director's focus should be on careful attention to the business and affairs of the corporation and on the establishment and operation of early warning reporting systems to identify potential problems for senior management and, where necessary, for the Board before they become real problems.

(c) *Directors and Officers Liability Coverage*

As part of its corporate risk management process, Manulife has purchased directors and officers liability insurance coverage.

Generally speaking, the coverage provides a risk management framework within which the Company partially or fully limits its financial exposure to certain risks or events that may give rise to a loss.

Coverage is comprised of two key elements:

1. it insures Directors and officers against loss arising from claims against them for "wrongful acts" in cases where they are not indemnified by the Company;

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2. it insures the Company against loss arising from claims against its Directors and officers for “wrongful acts”, but only where the Company does indemnify the Directors or officers as required or permitted under applicable statutory or bylaw provisions.

(d) Suggestions for Directors in Performing Their Duties

The following is a list of certain considerations, which will help Directors to minimize the risk associated with sitting on the Board:

1. Directors must understand thoroughly their duties and responsibilities and the liabilities and penalties associated with failing to discharge those duties and responsibilities;
2. Directors must act honestly and in good faith with a view to the best interests of the Company and apply care, diligence and skill in discharging their responsibilities;
3. Directors must prevent their own interests from conflicting with, or appearing to conflict with, the interests of the Company;
4. the appointment of the Chief Executive Officer and other members of senior management and the relationship of management to the Board are critical. The Board must have confidence in these individuals and in their willingness to keep the Board informed;
5. the Board must have sufficient information to allow it to reach informed decisions. The information must be detailed enough to give the Directors the complete picture, but not so detailed that its relevancy to the issue is obscured. The information must be provided far enough in advance of Board meetings to allow Directors time to review and consider it;
6. Directors should avoid missing meetings of the Board, but where this is unavoidable, they should inform themselves about what occurred and have their dissent recorded if they disagree with any action taken at that meeting;
7. Directors must not misuse confidential information;
8. the Board should delegate to committees when appropriate. Directors who serve on a committee should be aware that their exposure to liability may increase with respect to matters within the mandate of that committee;
9. appropriate audit and other review or reporting procedures should be put in place to ensure compliance with all legal requirements imposed on the Company and its Directors;
10. the Board should consider consulting outside advisors in appropriate circumstances, particularly whenever the Company proposes a major transaction such as an acquisition, divestiture, reorganization or financing. Board committees should also be given discretion to retain outside advisors;

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11. Directors must be satisfied that reliance on the Company's financial statements, its officers or outside advisors is warranted.

A. CORPORATE GOVERNANCE

This document is designed to provide Directors with an overview of their duties and responsibilities. As has been noted earlier, Directors are also expected to take an active role in informing themselves of matters of importance to the Company.

I. *Compliance System*

(a) *Compliance Officer*⁸

The Board shall appoint a Compliance Officer who shall have direct access to the Chairperson of the Board, the Board Committees and the President and Chief Executive Officer. He/She shall perform the following duties:

- i. Monitor compliance by the corporation with relevant regulations pertaining to corporate governance and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation;
- ii. Appear before any regulatory agency when summoned in relation to compliance with relevant laws and regulations; and,
- iii. Issue certifications as may be required by pertinent laws and regulations and, if there's any deviations from the mandate of laws and regulations, to explain the reason for such deviation to the Board and to the regulatory agency as may be required.
- iv. Develop systems of compliance, monitor compliance risks and report or update the Board of the implementation of compliance systems or the results of compliance monitoring.

(b) *Plan of Compliance*

i. **Board of Directors**

Compliance with the principles of good corporate governance shall emanate from the Board. The Board shall be responsible for ensuring sound and sustained strategic business management while complying with applicable laws and regulations and considering the best interest of the Corporation and its stakeholders, including shareholders.

ii. **Board Committees**

To aid the Board of Directors in complying with the principles of good corporate governance, the Board shall constitute the Audit Committee with the roles and responsibilities as provided in paragraph I. d. (2) of this Manual.

⁸ SEC Memorandum Circular No. 6, Series of 2009

iii. The Corporate Secretary

The Corporate Secretary, who shall be a Filipino and resident of the Philippines is an officer of the Corporation who is expected to be loyal to the mission, vision, and objectives of the Corporation. The Secretary shall be primarily responsible for the following:

- i. Ensure that all Board procedures, rules and regulations are strictly followed;
- ii. Safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its Committees, as well as the other official records of the Corporation;
- iii. Inform the members of the Board, in accordance with the By-laws, of the agenda of their meetings and ensure the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- iv. Attend all Board meetings except for justifiable causes; and,
- v. Prepare and submit all necessary documents and certifications as may be required by laws and regulations.

iv. External Auditor

The external auditor, duly accredited by the relevant regulatory agencies, shall be appointed by the Board upon recommendation of the Audit Committee. The external auditor shall undertake an independent audit of the Corporation and provide an objective assurance on the manner by which financial statements are prepared and presented to the Board and to the stockholders.

The external auditor should be rotated or changed every five (5) years or earlier or the signing partner of the external auditing firm assigned to the Corporation should be changed with the same frequency.⁹

v. Internal Auditor

The Board shall establish an independent Internal Audit Office and perform audit functions with impartiality and due professional care.¹⁰

The Internal Auditor should submit to the Audit Committee and Management a report, at least annually, on the internal audit department's activities, responsibilities, and performance relative to the audit plans and strategies as approved by the Audit Committee. The report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management.¹¹

⁹ SEC Memorandum Circular No. 9, Series of 2009, Revised Code of Corporate Governance, page 16.

¹⁰ IC Circular 31-2005, Corporate Governance Principles and Leading Practices

¹¹ SEC Memorandum Circular No. 9, page 16

The Internal Auditor should certify that they conduct their activities in accordance with International Standards on the Professional Practice of Internal Auditing. If they do not, they shall disclose to the Board and Management the reasons why they did not fully comply with the standards.¹²

II. Membership of the Board

(a) Number of Directors

The number of Directors shall be in accordance with the Company By-Laws. Each director shall be elected annually and shall hold office until the next annual meeting held next after his election and or until his successor shall have been elected and shall have qualified, or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.¹³

(b) Composition

The Board, in accordance with the By-Laws, shall be composed of nine (9) Directors, at least two (2) of whom shall be independent directors.¹⁴

Considering that the insurance business is imbued with public interest, the role of the Chairperson and the President and Chief Executive Officer shall in principle be separate, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.¹⁵

The Chairperson of the Board shall be a non-executive director.¹⁶

Non-Filipino citizens may become members of the Board of Directors provided that a majority of Directors must be residents of the Philippines.¹⁷

The Board shall endeavor to include a balance between executives and non-executive directors, such that, no individual or small group of individuals can dominate the Board's decision making.

The Board may form committees to support its oversight functions on Risk, Legal and Compliance, Audit as well as in determining qualifications, hiring and remuneration of senior management officials.

(c) Qualification

i. Qualification in General

¹² SEC Memorandum Circular No. 9, page 16

¹³ MP Amended By-Laws, Article IV, Section 2, page 4.

¹⁴ Ibid and Insurance Commission Circular 31-2005, 26 September 2005

¹⁵ Insurance Commission Circular 31-2005, 26 September 2005

¹⁶ Ibid.

¹⁷ Section 23, Corporation Code of the Philippines

The following are minimum qualifications required by the Insurance Commission¹⁸:

- a. Directors sitting on the Board shall be possessed of the necessary skills, competence and experience, in terms of management capabilities, preferably in the field of insurance or insurance-related disciplines. In view of the fiduciary nature of insurance obligations, Directors must be persons of integrity and credibility.
- b. Each Director shall be at least twenty-five (25) years of age at the time of his appointment.
- c. Each Director must have attended a special seminar on corporate governance conducted by a training provider duly accredited by the Insurance Commission and the Securities and Exchange Commission.

Also as required by the Insurance Commission, the following cannot be elected as Directors:

- a. Persons who have been judicially declared as insolvent, spendthrift or unable to enter into contract; or,
- b. Directors, officers, or employees of closed insurance companies or any insurance intermediaries who were responsible for such institution's closure as determined by the Insurance Commission.

ii. Qualification Specific to Independent Directors¹⁹

- a. An independent director shall be one who has not been an officer or employee of the corporation, its subsidiaries or affiliates or related interests for at least three (3) years immediately preceding his term or incumbency;
- b. Must not be related within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer, or majority shareholders;
- c. Must not be a majority shareholder of the company, any of its related companies, or of its majority shareholder;
- d. Must not be acting as nominee or representative of any director or substantial shareholder of the company, any of its related companies or any of its substantial shareholders; and,
- e. Must be free from any business or other relationships with the institution or any of its major shareholders which could materially interfere with the exercise of his judgment, i.e., has not engaged and does not engage in any transaction with the institution, or any of its related companies or any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner director or shareholder.

Although Directors are not expected to have the expertise necessary to manage directly the business, it is important that some, if not most, have some background in the issues that the Company faces.

Maintaining an appropriate mix of Directors on the Board is a critical element in the Company's governance. The Board reserves the right to review the eligibility of a Board Member if there is a significant change in the member's status such that the qualities,

¹⁸ Insurance Commission Circular 31-2005, 26 September 2005

¹⁹ *ibid*

responsibilities, background or local experience that the member brings to the Board are diminished.

(d) Election and Term

Directors of the Company are elected by a simple majority of shareholders at their Annual General Meeting.

Directors may serve for a number of terms so long as they continue to contribute to the Board's effectiveness and they remain free of real or perceived conflict of interest.

Term of Independent Director

Independent Directors can serve as such for five (5) consecutive years, provided that service for a period of at least six (6) months shall be equivalent to one (1) year, regardless of the manner by which the independent director left the post vacant.²⁰

After completion of the five-year service period, an independent director shall be ineligible for election as such in the same company unless the director has gone a cooling-off period of two (2) years, provided, that during such period, the director concerned has not engaged in any activity that under existing rules disqualifies a person from being elected as independent director of the Company.²¹

An independent director re-elected as such in the same company, after the cooling-off period can serve for another five (5) consecutive years.²²

After serving for ten (10) years, the independent director shall be perpetually barred from being elected as such in the Company.²³

The foregoing rule shall take effect on 2 January 2015. All previous terms served by existing independent directors shall not be included in the application of the term limits herein.²⁴

(e) Remuneration

The Board from time to time sets directors' remuneration, if appropriate. Directors who are employees of the Company or a related company generally do not receive additional compensation for acting as a Director.

Independent non-executive Directors are paid an annual fee supplemented with per meeting fees for attendance at Board and committee meetings and a travel time allowance is paid for out-of-town Board members in accordance with the terms agreed by the Company with those Directors.

²⁰ Insurance Commission Circular 2014-49, 11 December 2014.

²¹ Ibid.

²² Ibid.

²³ Ibid.

²⁴ Ibid.

(f) Vacancies

If there is a vacancy on the Board, the remaining Directors may continue to transact most business as long as there is a quorum.

Any vacancy, other than the removal or expiration of term in the Board, caused by death, resignation, disqualification, may be filled by the vote of at least a majority of the remaining Directors, if still constituting a quorum; otherwise, vacancy must be filled by the stockholders at the meeting during which the Director was removed, in accordance with the By-laws.²⁵

With respect to the Company's current Board members, if a potential conflict of interest situation were to occur, then the Director will be asked to absent himself or herself from a particular issue under discussion.

(g) Resignation and Removal

Directors cease to hold office when they die, resign (either as a director or as an employee of Manulife) or are disqualified or removed from office. A resignation is effective at the time as approved by the Board or at the time specified in the resignation, whichever is later.

Directors may make a written statement to the Company about their reasons for resignation.

III. Director Succession and Selection Criteria

- (a) The Board may determine the appropriate criteria for selecting and assessing potential and current Directors, if necessary, and may select candidates for nomination to the Board accordingly. The Board may engage in the following activities as it deems appropriate to ensure an effective process for selecting candidates for nomination:
1. develop criteria for the selection of new Directors;
 2. maintain a Directors' Skills Matrix, identifying the desired competencies, expertise, skills, background and personal qualities that are sought in potential candidates (Appendix 1);
 3. annually review these criteria to determine whether any amendments are required or whether there are any gaps in the skills of the existing Directors;
 4. identify and recommend individuals qualified and suitable to become Board members, taking into consideration any gaps identified in (3);
 5. maintain a list of suitable candidates for the Board;
 6. the Chair and the CEO shall meet with potential candidates prior to nomination to discuss the time commitments and performance expectations of the position; and
 7. approve candidates selected for nomination.

²⁵ Amended By-Laws (2010), Article IV, Section 10.

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- (b) A highly effective Board requires Directors to have the integrity, competencies and capabilities to carry out their fiduciary duties in the best interests of the Company and its shareholders. In order for the Directors to effectively execute their duties, they should have the requisite experience, skill, time and commitment as befits the Director of a very complex business. The following characteristics are necessary for new candidates being considered for nomination as well as existing Directors:
1. a reputation for integrity and ethical behavior;
 2. a demonstrated ability to exercise judgment and communicate effectively;
 3. financially knowledgeable;
 4. prominence in the individual's area of expertise;
 5. previous experience relevant to the operations of the Company; and
 6. sufficient time to dedicate to Board and Committee work.
- (c) The Board shall not nominate any individual to stand for election who is concurrently serving as a director of a bank, trust company or other life insurance company not affiliated with the Company.
- (d) The Board may determine a mandatory retirement age for Directors, if necessary. In case a mandatory retirement age for Directors is fixed, Directors shall retire at the Annual Meeting immediately following their mandatory retirement age. The Board may waive this as circumstances may dictate.
- (e) The term of office of a newly elected Director may be specified at the Annual Meeting.
- (f) The Board may delegate the responsibilities set out in this Section II to Specialized Committees. The Specialized Committee will report on its activities and make relevant recommendations for approval by the Board.

IV. Board and Director Evaluation

- (a) The Board or its Committees may conduct annual, formal evaluations of the Board, Board Committees, the Chair and the individual Directors, if necessary. The process may include the following steps:
1. the Chair meets annually with each Director to discuss Board performance, including a peer review;
 2. each Director completes biennial written Board and Committee Effectiveness and Director Self-Assessment Surveys (Appendix 2);
 3. the Board and Board Committees are assessed against their mandates and charters;

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4. contributions of individual Directors are assessed against the applicable position descriptions and the Directors' Skills Matrix setting out the skills each individual Director is expected to provide;
 5. the results of the Board and Committee assessments are presented to the Specialized Committee and the Board. The Specialized Committee identifies areas for improvement, develops action plans and monitors the progress of these plans;
 6. an annual private meeting of the independent Directors is held to review the results of the assessments and to approve the Specialized Committee's action plans;
 7. a review is prepared of overall size and effectiveness of the Board and its Committees; and
 8. an annual determination is made of each Director's ability to serve the Company based on his or her personal circumstances in accordance with Section III.

The Company may carry out an annual self-assessment to determine whether the Principles of Corporate Governance are being observed. Through the assessment, the Company may be able to identify its strengths and weaknesses.²⁶

In addition, the Company's standing in the ASEAN Corporate Governance Scorecards, as required to be submitted to the Insurance Commission every 15th of June of each year, shall be an appropriate measure tool in gauging the Company's observance of good corporate governance.²⁷

V. Board Meetings

(a) Frequency

The Board shall meet at least once (1) in every quarter of the year. Special meetings may be held for urgent and important matters that require Board attention.

The various committees meet on the same Board meeting dates. Occasionally committee meetings may be scheduled for other times when necessary.

(b) Notices of Meetings

Times and dates of upcoming Board and committee meetings are issued in advance at least two (2) weeks from the date of the meeting.

²⁶ IC Circular 31-2005

²⁷ IC Circular 14-2013 in relation to IC Circular 2015-23

For this reason, where a Board meeting must be called quickly and there is no sufficient time to give the required notice, the Company may ask Directors who were not present at the meeting to sign a waiver of notice or confirm the same in writing. A Director's presence at the meeting constitutes waiver of the notice requirements.

(c) Attendance

Directors should also bear in mind that they will be deemed to have consented to any Board resolution passed whether they are present at the meeting or not, unless they dissent in writing and record it with the Board.

(d) Location and Telephone Meetings

Meetings are usually held at the Company's Head Office in Manila, Philippines. Occasionally, an out-of-town Board meeting may be scheduled, as may be necessary.

Except during Annual Stockholders Meeting, participation in board meetings by teleconference or video-conference call is encouraged rather than the Director having to absent him/herself. A Director participating in a meeting via conference call or other communications facilities is deemed to be present at the meeting.

(e) Quorum

A quorum must be present at any Board meeting for business to be conducted at the meeting. As provided in the Company's by-laws, a majority of the number of directors shall constitute a quorum for the transaction of business at any meeting. Except as to corporate acts required by law to have at least 2/3 votes, the act of a majority of the Directors present at any meeting at which there is a quorum, shall be valid as a corporate act.²⁸

(f) Voting

Action is normally taken by a vote by the Directors who are present.

Directors who disagree with the decision or who abstain from voting (except in the case of certain conflicts of interest where abstention is permitted by statute) must be aware that they are deemed to have consented to the action unless they dissent.

A dissenting Director who is present at the meeting must have his or her dissent recorded in the minutes, or the Director must request it to be recorded. Alternatively, the Director may send a written dissent to the secretary of the meeting before the meeting is adjourned, or to the Company immediately after it is adjourned.

If a Director was not present at a meeting at which the Board took certain action with which the Director disagrees, the Director must either have a dissent placed with the minutes of the meeting or send a written dissent to the Company within seven days after becoming aware that the resolution was passed.

²⁸ 2010 By-Laws, page 5

(g) Board Resolutions

Board resolutions shall be evidenced by a certification issued by the Company's duly-elected Corporate Secretary or Assistant Corporate Secretary.

(h) Minutes

The Company is required to keep minutes of Board meetings and Directors are entitled to see and review the minutes. The minutes will provide evidence of who was present and what was done at a meeting, specifically the decisions made. It is therefore important that they reflect the meeting accurately.

The level of detail in the minutes about the Board's discussions, will, at the very least, be a complete record of the decisions taken at the meeting.

If the Board received advice from experts or advisors, this will be noted in the minutes as will any dissent expressed by a Director.

All concerns of the Directors about running the Company shall be recorded in the minutes of the Board.²⁹

²⁹ IC Circular 31-2005 Corporate Governance Principles and Leading Practices

VI. Directors' Conflict of Interest

(a) *When Does a Conflict Arise?*

Directors may have a number of relationships that will put them in a position of conflict or give rise to an obligation to disclose details of a relationship.

Directors who have an interest in a contract or proposed contract with the Company must consider the matter from two perspectives.

First, if the contract is material from the Company's perspective, the Directors will be under an obligation to declare their interest and, with some exceptions, to refrain from voting on the matter.

Second, if Directors do vote on the matter, they must ensure that they do not have a conflict of interest. Voting on a matter in these circumstances would constitute a breach of their fiduciary obligation to act in the best interests of the Company.

Directors may be considered to have an interest in a contract not only if they themselves are a party to the contract, but also if they have a material interest in any person or entity who is a party to the contract. A material interest in an entity is generally interpreted to mean an interest that is sufficient to result in some benefit or potential benefit to the Director.

Directors are required to disclose in writing to the Company their interest in any material contract or to request that the interest be entered in the minutes of a meeting of the Board.

The nature of a Director's interest must be disclosed in sufficient detail to allow the other Directors to understand what the interest is and how far it goes. A Director's interest must also be disclosed in a timely manner.

(b) *Voting and Abstaining from Voting*

As a general rule, Directors may not vote on a contract in which they have a material interest. There are exceptions for contracts that involve the Directors' remuneration or an indemnity in which they have an interest. Exceptions are also made in the case of obligations undertaken by the Director for the benefit of the Company or if it relates to an affiliate of the Company.

As a result of this last exception, Directors who serve on Boards of affiliated companies or subsidiaries are not required to refrain from voting on contracts between the two companies that they serve. Two results may flow from a Director's failure to disclose an interest in a material contract or, in some cases, from voting when not entitled to do so. First, the Director may be required to account to the Company for any gain or profit realized from the contract.

Second, the contract may be set aside.

In practice, Directors will take themselves completely out of the consideration of a particular matter where there may be a perception of conflict or a perception that they may not bring objective judgment to the consideration of the matter.

In appropriate circumstances, Directors will declare their position and absent themselves not only from the vote but also the discussion. In these circumstances, abstaining from voting should not expose a Director to liability.

VII. Confidential Information

(a) *Corporate Opportunity*

Directors must avoid even a perception that they have appropriated an opportunity that belonged to the Company. If Directors take advantage of an opportunity of which they become aware by virtue of their position as Directors, and that opportunity is one in which the Company might conceivably have had an interest, the Directors have acted counter to their fiduciary duty to the Company.

(b) *Duty of Confidence*

Directors also have a duty of confidence towards the Company. They must not misuse information obtained from the Company by virtue of their position on the Board.

A duty to keep such information confidential arises where the information is confidential by nature and/or was communicated in confidence.

Ultimately, the best interests of the Company will dictate the manner in which Directors can use information received in their capacity as Directors.

(c) *Insider Trading*

Coupled with this duty of confidence is the prohibition in various jurisdictions on insider trading which prevents Directors from profiting by trading in securities with information which they have about the Company, whether the securities are of this Company or another company, its subsidiaries and certain other entities as a result of their position as Directors.

Directors are included in the category of “insiders”. This means they are considered part of the group of people that would reasonably be expected to have access to material information about the Company that is not generally available to the public.

Disclosure by insiders of any undisclosed material information as well as any trading by insiders in the securities of the affected company at a time when the information has not been publicly disclosed is prohibited by laws or regulations. Criminal liability and civil penalties may apply with respect to violations of these laws or regulations.

Such situation may arise in which Manulife or an affiliate is proposing to make a takeover bid, or to otherwise acquire control of, another public company. In that case, the Directors of the Company may be deemed to have knowledge of the pending transaction and may also be deemed to have knowledge of sensitive undisclosed information about the target company which has been acquired by officers of the Company in the course of their “due diligence” investigations.

In any such case, the Directors must refrain from disclosing any information with respect to the potential transaction or the target company and refrain from trading in securities of that

company until such time as the transaction and the other undisclosed material information has been made public.

VIII. Information Management

(a) Information Provided to Directors

Since Directors are responsible for managing or supervising the management of the business affairs of the Company, they are entitled to have access to any information belonging to the Company. The flow of information to Directors is critical to the discharge of their responsibilities.

A balance must be struck such that Directors are informed of significant issues facing the Company and provided with the information needed to come to informed views.

It is critical that the Directors receive the information in sufficient time to allow them to read and digest it. The amount of time needed will vary depending on the volume and complexity of the information.

(b) Financial Statements

Responsibility for the Company's financial statements is one of the Board's most significant responsibilities, as these statements are the primary means of communicating the performance and prospects of the Company to shareholders, policyholders, and the public.

The Board's review of the financial statements must be more than a pro forma perusal of statements prepared and reported on by management. It is incumbent on the Directors to review the statements with a view to identifying any indications that the Company is encountering difficulty.

The Board should question members of the Audit Committee, management, and the internal and external auditors about the financial statements, if necessary.

B. OTHER MATTERS

a. Effectivity

This Corporate Governance Manual shall be effective upon its approval by the Board of Directors.

b. Amendments

This Corporate Governance Manual may be amended from time to time as may be required by pertinent laws and regulations and/or Company directives.

c. Application

The Manual shall be applicable to all Manulife affiliates and subsidiaries in the Philippines, subject to approval and adoption by its respective Board of Directors.

D. APPENDIX

Sample of Board Effectiveness Survey

BOARD EFFECTIVENESS SURVEY

(Date)

Completed by:

Name of Director

	Yes	No	Comments and/or Recommendations for Improvement
PART 1: BOARD RESPONSIBILITY			
1. Are you satisfied that you, as a Director, are: (i) aware of; (ii) understand; and (iii) are meeting their duties and obligations under the regulatory regimes within which the Company operates? If not, comment on where you believe the Directors need assistance and/or education.			
2. The division of authority and the allocation of responsibilities between the Board and executive management are clear. If not, please explain where more clarity is required.			
3. Are you obtaining the information that you need (through management presentations, external advisors or others) to perform your obligations as a Director. If not, in what areas would you benefit from additional education?			
4. Do you agree with the priorities the Board has established for the meetings? If not, please comment on areas you feel requires additional focus.			
5. Are you satisfied with the Board's involvement in the strategic planning process and in particular that the Board meets the requirements set out in its Mandate? If not, please describe what additional actions you feel the Board should be taking in this respect.			
6. I am satisfied that the Board is kept informed of all material issues.			
7. Are the Directors receiving appropriate information to provide input into decisions relating to major capital expenditures, raising capital, allocation of resources to the Company's lines of business, organizational restructurings and other major financial activities? If not, please describe what additional information would be helpful.			
8. I am satisfied with the Board's knowledge and understanding of the principal risks of Manulife's business and the policies and procedures in place to identify monitor and manage those risks. If not, indicate what additional information, input, reports or presentations would be useful.			

	Yes	No	Comments and/or Recommendations for Improvement
9. I have, through Board, Committee and informal contact, sufficient exposure to and knowledge of high potential executive and management employees in the organization.			
10. I am satisfied that the activities and reports of the Board and each of the Committees that I am a member of are sufficient to enable the Board and each of the Committees to fulfill their Mandates. If not, please advise what additional information would be useful.			
11. Is there an effective succession planning process in place for the selection, appointment, development, evaluation and compensation of the Board members and the Chair of the Board? If not, please describe what you feel is required to improve upon this process.			
12. Is there an effective succession planning process in place for the selection, appointment, development, evaluation and compensation of the senior management team? If not, please describe what you feel is required to improve upon this process.			
PART 2: BOARD OPERATIONS			
13. The frequency of Board and Committee meetings is adequate for me to fulfill my obligation as a Director.			
14. Given the overall time available for meetings, are the times scheduled for Board and Committee meetings appropriate?			
15. Are there areas where you feel your expertise could be better utilized?			
16. The Board has the right mix of experience and skills to guide Manulife towards achieving its strategic goals. If not, what additional skills and experience do you believe would be beneficial to the Board?			
17. I am satisfied with the Board's current Committee structure. If not, what changes would you recommend?			

	Yes	No	Comments and/or Recommendations for Improvement
18. I am satisfied that each of the following Committees and Committee Chairs are performing as they should and if not, please comment on what improvements are recommended:			
• Audit Committee			
• Conduct Review and Ethics Committee			
• Corporate Governance and Nominating Committee			
• Management Resources and Compensation Committee			
• Risk Committee			
19. I am satisfied that the processes in place to nominate candidates for the Board are working well.			
20. I am satisfied with the frequency and amount of time for discussion among independent Directors without management present.			
21. The briefing materials I receive are adequate and timely, allowing for sufficient time to consider matters prior to the meetings.			
22. The performance and competitive information I receive allows me to monitor results, identify potential areas of concern and understand important industry issues/trends.			
23. The Chair of the Board: (a) Is effectively setting the Board agenda; (b) Is effective in running Board meetings. Please comment on any improvements that you would recommend.			
PART 3: BOARD AND COMMITTEE EFFECTIVENESS			
24. The Board's goals, expectations and concerns are openly communicated with management.			
25. Board and Committee meetings are candid and constructive and are conducted in a manner that ensures open communication, meaningful participation, critical questioning and the timely resolution of issues.			

	Yes	No	Comments and/or Recommendations for Improvement
26. Is the process that the Management Resources and Compensation Committee and the Board have in place to annually (i) evaluate the performance of the CEO based on written corporate goals and objectives for the previous year, and (ii) review and approve the written corporate goals and objectives of the CEO for the upcoming year appropriate?			
27. The process now in place to manage CEO succession (on both an emergency and a long-term basis) is working well. [Note: The Chair of the Board is aware of the CEO's recommendation for an emergency interim CEO. The CGNC recommends the succession and appointment of the President and CEO to the Board of Directors.]			
28. Management is appropriately responsive to questions and issues raised by the Board.			
29. I receive adequate feedback as a Director about my contribution to Manulife.			

30. What suggestions do you have for the Board and the Committees that you are a member of to improve their effectiveness?

31. Are the Board and the Committees that you are a member of dealing with the appropriate priorities? If not, what additional areas of priority should the Board and Committees be dealing with?

32. Additional comments or suggestions about the Board's responsibilities, operations or effectiveness or on any other matter.

	Agree	Disagree	Comments and/or Recommendations for Improvement
PART 4: INDIVIDUAL DIRECTOR SELF-EVALUATION GUIDE			
33. I am satisfied that I have a clear understanding of the Company's business and its strategic and financial plans.			
34. I am well prepared for each Board and Committee meeting, by reviewing materials provided and requesting, where appropriate, information that will allow me to properly participate in the Board's deliberations, make informed business judgments, and exercise oversight.			
35. Absent a compelling reason, I attend every Board and applicable Committee meeting, and actively participate in deliberations and decisions. When attendance is not possible I familiarize myself with the matters covered at the meeting.			
36. I have the appropriate skills/expertise to contribute to the Board's overall competence.			
37. I have good interpersonal relationships with the other Directors.			
38. I think, speak and act independently in relation to decisions the Board must make.			
39. I am willing to challenge management as appropriate.			
40. I facilitate and encourage change when it would improve Board processes.			
41. I contribute to Board discussions and deliberations.			

42. Additional comments (if any):
