CORPORATE GOVERNANCE MANUAL

The Board of Directors and Management of ASIA UNITED BANK hereby commit themselves to the principles and best practices contained in this Manual to guide the attainment of the corporate goals.

PART 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 as soon as possible.

PART II
DEFINITION / IMPORTANCE OF CORPORATE GOVERNANCE

The Organization for Economic Coordination and Development (OECD) defines corporate governance as a set of relationships between a company's board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and maintaining performance are determined.

More briefly, it is the system by which businesses are directed and implemented by the company's board of directors.

Banks play a strategic role in the smooth functioning of the national economy. They act as principal intermediary between the users and providers of financial services. If the banking system is weak, the national economy is also affected by virtue of its critical role in the operations of the national payments system.

PART III
BOARD OF DIRECTORS

1. Qualifications of the Board of Directors

a) Definition/limits

a. *Definition of directors.* Directors shall include:

(1) directors who are named as such in the articles of incorporation;
(2) directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned banks; and
(3) those elected to fill vacancies in the board of directors.

b. *Limits on the number of the members of the board of directors.* Pursuant to Section 15 and 17 of R.A. No. 8791, there shall be at least 5, and a maximum of 15 members of the board of directors of a bank. Provided, that in case of a bank/QB/trust entity merger or consolidation, the number of directors may be increased up to the total number of the members of board of directors of the merging or consolidating bank/QB/trust entity as provided for in their respective Articles of Incorporation, but in no case to exceed 21. The board shall determine the appropriate number of its members to ensure that the number is commensurate with the size and complexity of the bank's operations.

To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. A sufficient number of qualified non-executive members shall be elected to promote the independence of the board from the views of senior management. For this purpose, non-executive members of the board of directors shall refer to those who are not part of the day to day management of banking operations and shall include the independent directors.

c. *Minimum number of independent directors.* At least 20% but not less than 2 members of the board of directors shall be independent directors. Provided, that any fractional result from applying the required minimum proportion, e.e., 20%, shall be rounded-up to the nearest whole number.

d. *Limitation on nationality of directors.* Non-Filipino citizens may become members of the board of directors of a bank to the extent of the foreign participation in the equity of said bank. Provided that pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68), a majority of the directors must be residents of the Philippines.

e. *Conduct of board meetings.* The meetings of the board of directors may be conducted through modern technologies such as, but not limited to, teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matter taken up therein.

b) **Qualifications of a director**

a. A director shall have the following qualifications:

(1) He shall be at least 25 years of age at the time of his election or appointment;
(2) He shall be at least a college graduate or have at least 5 years experience in business;
(3) He must have attended a special seminar on corporate governance for board of directors conducted or accredited by the BSP. Provided, that incumbent directors as well as those elected after 17 September 2001 must attend said seminar on or before 30 june 2003 or within a period of 6 months from date of election for those elected after 30 June 2003, as the case may be, and
(4) He must be fit and proper for the position of a director of the bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience.

The members of the board of directors shall possess the foregoing qualifications for directors in addition to those required or prescribed under R.A. No. 791 and other existing applicable laws and regulations.

b. Independent directors

In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry-out his duties and responsibilities. Provided, that the rules and regulations of the Securities and Exchange Commission (SEC) governing public and listed companies on the maximum number of companies of the conglomerate in which an individual

can serve as an independent director shall apply to independent directors of all types of banks.
An independent director shall refer to a person who:

(1) is not or has not been an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past 3 years counted from the date of his election;
(2) is not a director or officer of the related companies of the institution's majority stockholder;
(3) is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
(4) is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies;
(5) is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders; and
(6) is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm or which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and could not materially interfere with or influence the exercise of his judgement.

An independent director of a bank may only serve as such for a total of 5 consecutive years. Provided, that the maximum term and any "cooling off" period prescribed by the SEC for public and listed companies shall apply to all types of banks.
The foregoing terms and phrases used in items "(1) to (6)" of this Section shall have the following meaning:

(a) Parent is a corporation which has control over another corporation directly or indirectly through 1 or more subsidiaries.

(b) Subsidiary means a corporation more than 50% of the voting stock of which is owned or controlled directly or indirectly through 1 or more intermediaries by a bank.

(c) Affiliate is a juridical person that directly or indirectly through 1 or more intermediaries, is controlled by, or is under common control with the bank or its affiliates.

(d) Related interests as defined under Sections 12 and 13 of R.A. No. 8791 shall mean individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common law, and 2 or more corporations owned or controlled by a single individual or by the same family group or the same group of persons.

(e) Control exists when the parent owns directly or indirectly through subsidiaries more than one-half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even when ownership is one-half or less of the voting power of an enterprise when there is:

i. power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
ii. power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
iii. power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
iv. power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
v. any other arrangement similar to any of the above.

(f) Related company means another company which is: (a) its parent of holding company; (b) its subsidiary or affiliate; or (c) a corporation where a bank or its majority stockholder own such number of shares that will allow/enable him to elect at least 1 member of the board of directors or a partnership where such majority stockholder is a partner.

(g) Substantial or major shareholder shall mean a person, whether natural or juridical, owning such number of shares that will allow him to elect at least 1 member of the board of directors or a bank or who is directly or indirectly the registered or beneficial owner or more than 10% of any class of its equity security.

(h) Majority stockholder or majority shareholder means a person, whether natural or juridical, owning more than 50% of the voting stock of a bank.

2. Duties and Responsibilities of the Board of Directors

a) **Powers/responsibilities and duties of directors**

a. *Powers of the board of directors.* The corporate powers of a bank shall be exercised, its business conducted and all its property controlled and held, by its board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the bank.

b. *General responsibility of the board of directors.* The position of a bank director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The board of directors is primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution.

c. *Specific duties and responsibilities of the board of directors*

(1) ***To approve and monitor the implementation of strategic objective.*** Consistent with the institution's strategic objectives, business plans shall be established for the bank including its trust operations, and initiatives thereto shall be implemented with clearly defined responsibilities and accountabilities. These shall take into account the bank's long-term financial interests, its level of risk tolerance and its ability to manage risks effectively. The board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed.

The board shall likewise ensure that the bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.

(2) ***To approve and oversee the implementation of policies governing major areas of banking operations.*** The board shall approve policies on all major business activities, e.g., investments, loans, asset and liability management, trust, business planning and budgeting. The board shall accordingly define the bank's level of risk tolerance in respect of said activities. A mechanism to ensure compliance with said policies shall also be provided.

The board shall set out matters and authorities reserved to it for decision, which include, among others major capital expenditures, equity investments and divestments. The board shall also establish the limits of the discretionary powers of each officer, committee, sub-committee and such other groups for purposes of lending, investing or any other financial undertaking that exposes the bank to significant risk.

(3) ***To approve and oversee the implementation of risk management policies.*** The board of directors shall be responsible for defining the bank's level of risk tolerance and for the approval and oversight of the implementation of policies and procedures relating to the management of risks throughout the institution, including its trust operations. The risk management policy shall include:

(a) a comprehensive risk management approach;
(b) a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
(c) a clear delineation of lines of responsibilities for managing risk;
(d) an adequate system for measuring risk; and
(e) effective internal controls and a comprehensive risk-reporting process. The board of directors shall ensure that a robust internal reporting system is in place that shall enable each employee to contribute to the appreciation of the bank's overall risk exposures.

The board of directors shall ensure that the risk management function is given adequate resources to enable it to effectively perform its functions. The risk management function shall be afforded with adequate personnel, access to information technology systems and systems development resources, and support and access to internal information.

(4) ***To oversee selection and performance of senior management.*** It is the primary responsibility of the board of directors to appoint competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the bank's strategic objectives, and conduct regular review of bank's policies with the management team.

(a) The board of directors shall apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution's business, either current or planned shall be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the members of the senior management shall uphold the general operating philosophy, vision and core values of the institution. The board of directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession.

(b) The board of directors shall regularly monitor the actions of senior management and ensure that these are consistent with the policies that it has approved. It shall put in place formal performance standards to be able to effectively assess the performance of senior management. The performance standards shall be consistent with the bank's strategic objectives and business plans, taking into account the bank's long-term financial interests.

(c) The board of directors shall regularly meet with senior management to engage in discussions, question and critically review the reports and information provided by the latter. The board of directors shall set the frequency of meeting with senior management taking into account the size, complexity of operations and risk profile of the bank.

(d) The board of directors shall regularly review policies, internal controls and self-assessment functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues. The board of directors shall set the frequency of review taking into account the size, complexity of operations and risk profile of the bank.

The board of directors shall ensure that senior management's expertise and knowledge shall remain relevant given the bank's strategic objectives, complexity of operations and risk profile.

(5) ***To consistently conduct the affairs of the institution with a high degree of integrity.*** Since reputation is a very valuable asset, it is in the institution's best interest that in dealings with the public, it observes a high standard of integrity. The board of directors shall lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the senior management and other employees. The board of directors shall:

(a) Articulate clear policies on the handling of any transaction with DOSRI and other related parties ensuring that there is effective compliance with existing laws, rules and regulations at all times and no stakeholder is unduly disadvantaged. In this regard, the board of directors shall define "related party transaction", which is expected to cover a wider definition than DOSRI under existing regulations and a broader spectrum of transactions (i.e., not limited to credit exposures), such that relevant transactions that could pose material risk or potential abuse to the bank and its stakeholders are captured.

(b) Require the bank's stockholders to confirm by majority vote, in the annual stockholder's meeting, the bank's significant transactions with its DOSRI and other related parties.

(c) Articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the institution, or unethical conduct.

(d) Articulate policies that will prevent the use of the facilities of the bank in furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.

(e) Explicitly discourage the taking of excessive risks as defined by internal policies and establish an employees' compensation scheme effectively aligned with prudent risk taking. The compensation scheme shall be adjusted for all types of risk and sensitive to the time horizon of risk. Further, the grant of compensation in forms other than cash shall be consistent with the overall risk alignment of the bank. The board of directors shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended.

(f) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the bank at all times. Further, the board of directors shall ensure that all transactions involving the pension fund are conducted at arm's length terms.

(g) Allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management as to and/or the board itself.

(h) Articulate policies in communicating corporate values, codes of conduct and other standards in the bank as well as the means to confidentially report concerns or violations to an appropriate body.

(6) ***To define appropriate governance policies and practices for the bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement.*** The board of directors, through policies and its own practices, shall establish and actively promote, communicate and recognize sound governance principles and practices to reflect a culture of strong governance in the bank as seen by both internal and external stakeholders.

(a) The board of directors shall ensure that the bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability, especially between the roles of the Chairman of the board of directors and Chief Executive Officer/President.

(b) The board of directors shall maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.

(c) The board of directors shall structure itself in a way, including in terms of size, frequency of meetings and the use of committees, so as to promote efficiency, critical discussion of issues and thorough review of matters. It shall meet regularly to properly discharge its functions. It shall also ensure that independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.

(d) The board shall conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound banking practice. The board shall appoint a compliance officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The compliance officer shall be vested with appropriate authority and provided with appropriate support and resources.

(e) The board of directors shall establish a system of checks and balances which applies in the first instance to the board itself. Among the members of the board, an effective system of checks and balances must exist. The system shall also provide a mechanism for effective check and control by the board over the chief executive officer and key managers and by the latter over the line officers of the bank. Checks and balances in the board shall be enhanced by appointing a chairperson who is a non-executive, whenever possible.

(f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, the individual directors, and the bank itself, which may be facilitated by the corporate governance committee or external facilitators. The composition of the board shall also be reviewed regularly with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation shall be adopted which shall include, but not limited to, the setting of benchmark and peer group analysis.

(g) The board shall ensure that individual members of the board and the shareholders are accurately and timely informed. It shall provide all its members and to the shareholders a comprehensive and understandable assessment of the bank's performance, financial condition and risk exposures. All members of the board shall have reasonable access to any information about the institution at all times. It shall also provide appropriate information that flows internally and to the public.

(7) ***To constitute committees to increase efficiency and allow deeper focus in specific areas.*** The board of directors shall create committees, the number and nature of which would epend on the size of the bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank.

(a) The board of directors shall approve, review and update at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that se out its mandate, scope and working procedures.

(b) The board of directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the board of directors, shall appoint independent directors and non-executive members of the board to the greatest extent possible while ensuring the such mix will not impair the collective skills, experience, and effectiveness of the committees. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions, such as the Audit, Risk Overshight and Corporate Governance committees, without prior approval of the Monetary Board.

(c) The board of directors shall ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions the taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.

(d) The board of directors shall constitute, at a minimum, the following committees:

(i) *Audit Committee.* The audit committee shall be composed of at least 3 members of the board of directors, wherein 2 of whom shall be independent directors, including the chairperson, preferably with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the bank. To the greatest extent possible, the audit committee shall be composed of a sufficient number of independent and non-executive board members. Further, the chief executive officer, chief financial officer and/or treasurer, or officers holding equivalent positions, shall not be appointed as members of the audit committee.

(ii) *Risk Oversight Committee.* The risk oversight committee shall be responsible for the development and oversight of the risk management program for the bank and its trust unit. The committee shall be composed of at least 3 members of the board of directors including at least 1 independent director, and a chairperson who is a non-executive member. The members of the risk oversight committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The bank's risk management unit and the chief risk officer shall communicate formally and informally to the risk oversight committee any material information relative to the discharge of its function. The risk oversight committee, shall , where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

The core responsibilities of the risk oversight committee are to:

a. *Identify and evaluate exposures.* The committee shall assess the probability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are most likely to occur and are costly when they happen.

b. *Develop risk management strategies.* The risk oversight committee shall develop a written plan defining the strategies for managing and controlling the major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real.

c. *Oversee the implementation of the risk management plan.* The risk oversight committee shall conduct regular discussions on the institution's current risk exposure based on regular management reports and assess how the concerned units or offices reduced these risks.

d. *Review and revise the plan as needed.* The committee shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The committee shall report regularly to the board of directors the entity's overall risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.

(iii) *Corporate Governance Committee.* The corporate governance committee shall assist the board of directors in fulfilling its corporate governance responsibilities. It shall review and evaluate the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the board of directors. The committee shall be composed of at least 3 members of the board of directors, 2 of whom shall be independent directors, including the chairperson.

The committee shall be responsible for ensuring the board's effectiveness and due observance of corporate governance principles and guidelines. It shall oversee the periodic performance evaluation of the board and its committees and executive management; and shall also conduct an annual self-evaluation of its performance. The corporate governance committee may coordinate with external facilitators on carrying out board assessment, within the frequency approved by the entire board. The corporate governance committee shall also decide whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the director's contribution and performance (e.g., competence, candor, attendance, preparedness and participation). Internal guidelines shall be adopted that address the competing time commitments that are faced when the directors serve on multiple boards.

The committee shall make recommendations to the board regarding the continuing education of directors, assignment to board committees, succession plan for the board members and senior officers, and their remuneration commensurate with corporate and individual performance.

The corporate governance committee shall decide the manner by which the board's performance shall be evaluated and propose an objective performance criteria approved by the board. Such performance indicators shall address how the board has enhanced long term shareholder's value.

Provided, that in case of simple or non-complex banks, the board of directors may, at a minimum, constitute only the audit committee. Provided further, that the board shall discuss risk management and corporate governance matters in their board meetings, with the views of the independent directors duly noted and minuted.

For this purpose, a bank's business model is deemed simple if a bank is primarily engaged in the business of deposit-taking and lending. Provided that a universal or commercial bank shall be deemed a complex bank while a thrift, rural or cooperative bank shall be deemed a simple bank. Nonetheless, a universal or commercial bank may apply with the BSP for a reclassification as simple bank in order to avail of the reduced minimum requirement on the constitution of board committees. The BSP may likewise declare a thrift, rural or cooperative bank as complex, and therefore necessitating complete compliance with the aforementioned requirements.

(8) *To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors.* The board of directors shall recognize and acknowledge the importance of the assessment of the independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of a bank on a going-concern basis and communicate the same throughout the bank. This shall be displayed by undertaking timely and effective actions on issues identified.

Further, non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.

(9) In group structures, the board of directors of the parent company banks shall have the overall responsibility for defining an appropriate corporate governance framework that shall contribute to the effective oversight over entities in the group. Towards this end, the board of directors of the parent company bank shall ensure consistent adoption of corporate governance policies and systems across the group and shall carry-out the following duties and responsibilities:

(a) To define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the bank and its subsidiaries are exposed. The board shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.

(b) To define the level of risk tolerance for the group, which shall be linked to the process of determining the adequacy of capital of the group.

(c) To ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.

(d) To establish a system for monitoring compliance of each entity in the group with all applicable policies, practices and systems.

(e) To define and approve policies and clear strategies for the establishment of new structures.

(f) To understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company bank. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances.

(g) To develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.

(h) To require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board.

(i) To disclose to the Bangko Sentral ng Pilipinas all entities in the group (e.g., owned directly or indirectly by the parent company bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the bank exerts control over or those that exerts control over the bank, or those that are related to the bank and/or its subsidiaries/affiliates either through common ownership/directorship/officership) as well as all significant transactions between entities in the group involving any BSP regulated entity. For this purpose, significant shall refer to transactions that would require board approval based on the bank's internal policies or as provided under existing regulations. Provided, that the bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

In cases where the bank is a subsidiary/affiliate of a non-BSP regulated parent company, its board of directors shall carry-out the following duties and responsibilities:

(a) To ensure that the bank complies with the governance policies, practices and systems of the parent company as well as meets the standards and requirements set forth under existing laws, rules and regulations.

(b) To define and approve policies and clear strategies for the establishment of new structures (e.g., subsidiaries/affiliate of the bank). The board of directors shall also report to the Bangko Sentral ng Pilipinas any plan to create additional group structures.

(c) To understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the bank's capital, risk profile and funding under normal and contingent circumstances.

(d) To require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board.

(e) To disclose to the Bangko Sentral ng Pilipinas all entities in the group (e.g., owned directly or indirectly by the parent company bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the bank exerts control over or those that exerts control over the bank, or those that are related to the bank and/or its subsidiaries/affiliates either through common ownership/directorship/officership) as well as all significant transactions between entities in the group involving any BSP regulated entity. For this purpose, significant shall refer to transactions that would require board approval based on the bank's internal policies or as provided under existing regulations. Provided, that the bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

d. *Specific duties and responsibilities of a director*

(1) *To remain fit and proper for the position for the duration of his term.* A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the bank is engaged in or intends to u\pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

(2) *To conduct fair business transactions with the bank and to ensure that personal interest does not bias board decisions.* Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic

principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interest. He should avoid situations that would compromise his impartiality.

(3) *To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.* A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.

(4) *To devote time and attention necessary to properly discharge their duties and responsibilities.* Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.

(5) *To act judiciously.* Before deciding on any matter brought before the BOD, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

(6) *To contribute significantly to the decision-making process of the board.* Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.

(7) *To exercise independent judgment.* A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks will be beneficial to the institution.

(8) *To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies.* A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

(9) *To observe confidentiality.* Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the board.

3. Duties and Responsibilities of the Chairperson of the Board of Directors

(1) *To provide leadership in the board of directors.* The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members.

(2) *To ensure that the board takes an informed decision.* The chairperson of the board shall ensure a sound decision making process and he should encourage

and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process.

4. Duties and Responsibilities of Officers

(1) *To set the tone of good governance from the top.* Bank officers shall promote the good governance practices within the bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the bank.

(2) *To oversee the day-to-day management of the bank.* Bank officers shall ensure that bank's activities and operations are consistent with the bank's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

(3) *To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.* Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the bank.

(4) *To promote and strengthen checks and balances systems in the bank.* Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

5. Corporate Secretary

a. The Corporate Secretary shall be elected by the Board, to serve as such until his successor shall have been duly elected and qualified.

b. The Corporate Secretary shall possess the following qualifications:

i. He/She shall be a Filipino citizen.

ii. Considering his varied functions and duties, he must possess administrative and interpersonal skills, and if he is not the general counsel, then he must have some legal skills. He must also have some financial and accounting skills.

c. The Corporate Secretary shall have the following duties and functions:

i. Gather and analyze all documents, records and other information essential to the conduct of his duties and responsibilities to the Corporation.

ii. Put the Board on notice of the Agenda before every meeting.

iii. Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.

iv. Attend all Board Meetings and maintain records of the same.

v. Submit to the Commission at the end of every fiscal year an annual certification as to the attendance of the Directors during Board Meetings.

6. External Auditor

a. The External Auditor shall be selected and appointed by the Stockholders during the annual Stockholders' Meetings, upon recommendation of the Audit Committee.

b. The reason/s for the resignation, dismissal or cessation from service, and the date thereof, of an External Auditor shall be reported in the company'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.

c. The External Auditor of the company shall not at the same time provide the services of an Internal Auditor to the same client. The Board shall ensure that other non-audit work shall not be in conflict with the functions of the External Auditor.

d. The company's External Auditor shall be rotated or the handling partner shall be changed every five (5) years or sooner.

e. If an External Auditor believes that the statements made in the company's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

7. Reports

a) The reports required on group structures shall be considered as Category A-1 reports and shall be submitted as follows:

   a. The report (Annex A) disclosing all entities in the group structure where a bank belongs either as a parent company bank or subsidiary/affiliate company shall be submitted within 30 calendar days after the end of every calendar year starting with the year 31 December 2011. The report for the year ending 31 December 2011, on the other hand, shall be submitted on or before 31 March 2012; and

   b. The report (Annex B) on significant transactions between entities in the group and involving any BSP regulated entity, shall be submitted within 20 calendar days after the end of the reference quarter starting with the quarter ending 31 March 2012.

b) The report required relative to the replacements of the Chief Risk Officer shall be considered as a Category A-1 report and shall be submitted within 5 days from the time of approval of the board of directors.

c) Non-complex banks that shall adopt the reduced minimum requirement on the creation on only an audit committee shall submit the following to the appropriate department of the SES:

   (1) A Secretary's Certificate attesting the approval of the board of directors to create only the audit committee/dissolve the other board-level committee if and when approved by the BSP; and

   (2) A letter signed by the President/Chief Executive Officer requesting for approval for creating/maintaining only the audit committee.

d) Banks shall submit the following to the appropriate department of the SES within 90 calendar days from the effectivity of Circular No. 749:

   (1) A Secretary's Certificate attesting the approval of the board of directors to changes in the bank's policies aligning the same with the provisions of Circular No. 749; and

(2) Acknowledgement receipt of copies of specific duties and responsibilities of the board of directors and of a director and certification that they fully understand the same.

PART IV
REPORTORIAL OR DISCLOSURE SYSTEM OF CORPORATE GOVERNANCE POLICIES

1. The reports or disclosures required under this Manual shall be prepared and submitted to the Commission by the responsible Committee or Officer through the Corporation's Compliance Officer;

2. The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the stakeholders through the proper procedures adopted by the Philippine Stock Exchange and by the SEC.

3. All material information, i.e., anything that could potentially affect share price, shall be publicly disclosed. Such information shall include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of Directors and changes to ownership. Other information that shall always be disclosed includes remuneration (including stock options) of all Directors and senior management corporate strategy, and off balance sheet transactions.

PART V
SHAREHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS

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

A. Voting Right

1 Shareholders shall have the right to elect, remove and replace Directors and vote on certain corporate acts in accordance with the Corporation Code.

2. Cumulative voting shall be used in the election of Directors.

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

B. Power of Inspection

All Shareholders shall be allowed to inspect during office hours the corporate books and records including minutes of Board Meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

C. Right to Information

1. The Shareholders shall be provided, upon written request, with periodic reports which disclose personal and professional information about the Directors and Officers and certain other matters such as their holdings of the company's shares, dealings with the company, relationships among Directors and key Officers, and the aggregate compensation of Directors and Officers.

2. The Minority Shareholders shall have the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

3. The Minority Shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the Minority Shareholders shall be allowed to propose to include such matters in the agenda of Stockholders' Meeting, being within the definition of "legitimate purposes".

D. Right to Dividends

1. Shareholders shall have the right to receive dividends subject to the discretion of the Board.

2. The company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except:

    a) When justified by definite corporate expansion projects or programs approved by the Board; or

    b) When the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or

    c) When it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

E. Appraisal Right

1. The Shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

    a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any Stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

    b. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and

    c. In case of merger or consolidation.

2. It shall be the duty of the Directors to promote shareholder rights, remove impediments to the exercise of Shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of Shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to Shareholders participating in meetings and/or voting in person. The Directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

PART VI
MONITORING AND ASSESSMENT

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

2. The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible Officer or Employee to the penalty provided under Part 8 of this Manual.

3. The establishment of such evaluation system, including the features thereof, shall be disclosed in the company's annual report or in such form of report that is applicable to the Corporation. The adoption of such performance evaluation system must be covered by a Board approval.

4. This Manual shall be subject to quarterly review unless this frequency is amended by the Board.

5. All business processes and practices being performed within any department or business unit of Asia United Bank that are not consistent with any portion of this manual shall be revoked unless upgraded to the compliant extent.

PART VII
COMMUNICATION PROCESS

1. This manual shall be available for inspection by any Stockholder of the Corporation at reasonable hours on business days.

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.

3. An adequate number of printed copies of this Manual must be reproduced and distributed to all departments/subsidiaries with a minimum of at least one (1) hard copy of the Manual each.

PART VIII
TRAINING PROCESS

1. If necessary, funds shall be allocated by the CFO or its equivalent Officer for the purpose of conducting an orientation program or workshop to operationalize this Manual.

2. A Director shall, before assuming as such, be required to attend a seminar on Corporate Governance which shall be conducted by a duly recognized private or government institute.

PART IX
PENALTIES FOR NON-COMPLIANCE

1. To strictly observe and implement the provisions of this manual, the following penalties shall be imposed, after notice and hearing, on the company's Directors, Officers, staff, subsidiaries and affiliates and their respective Directors, Officers and staff in case of violation of any of the provision of this Manual:

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

    b. In case of second violation, suspension from office shall be imposed The duration of the suspension shall depend on the gravity of the violation.

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

2. The commission of a third violation of this manual by any member of the board of the company or its subsidiaries and affiliates shall be a sufficient cause for removal from Directorship.

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.

PART X
COMPLIANCE SYSTEM

The Compliance System shall ensure that the corporate principles and best practices shall at all times be maintained for the attainment of the corporate goals and objectives. To this end, the Corporate Governance principles and guidelines contained in this Manual must be adhered to by all concerned, starting with the Board of Directors, to the Board Committees, the Corporate Officers and the Auditors, to be monitored by the Compliance Officer.

A. Compliance Officer

1. The Chairman of the Board shall designate a Compliance Officer who shall be a Director or Officer of the Corporation.

2. The Compliance Officer shall be primarily responsible for monitoring and insuring adherence to the provisions of this Manual.

3. The Compliance Officer shall perform the following duties:

   a. Establish an evaluation system to determine, monitor and measure compliance with the provisions and requirements of this Manual, report the same to the Board for adoption and approval;

   b. Insure that the Evaluation System and the features thereof are properly disclosed in the company's annual report to the SEC;

   c. Determine violation/s of the Manual and report the same for further review and approval of the Board;

   d. Appear before or make representations with the Securities and Exchange Commission ("SEC") upon summons on similar matters that need to be clarified by the same;

   e. Issue a certification every January 30th of the year on the extent of the Corporation's compliance with this Manual for the completed year, explaining the reason/s of the latter's deviation from the same; and

   f. Identify, monitor and control compliance risks.

4. The Compliance Officer shall have direct reporting responsibilities to the Chairman of the Board.

5. The appointment of the compliance Officer shall be immediately disclosed to the Securities and Exchange Commission.

6. All correspondence relative to his functions as such shall be addressed to said Officer.

PART X
RISK MANAGEMENT FUNCTION

The risk management function is generally responsible for:

(a) identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;

(b) monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the bank's internal capital adequacy assessment on an on-going basis;

(c) monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and

(d) reporting on a regular basis to senior management and to the board of directors of the results of assessment and monitoring.

Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects or risk arising from the bank's activities.

Chief Risk Officer

Universal/commercial banks shall appoint a chief risk officer (CRO), or any equivalent position, who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times as such, albeit the CRO may report to the President or Senior Management, he shall have direct access to the board of directors and the risk oversight committee without any impediment. In this regard, the board of directors shall confirm the performance ratings given by the President of Senior Management to the CRO.

The CRO shall have sufficient stature, authority and seniority within the bank. This will be assessed based on the ability of the CRO to influence decisions that affect the bank's exposure to risk. The CRO shall have the ability, without compromising his independence, to engage in discussions with the board of directors, chief executive officer and other senior management on key risk issues and to access such information as he deems necessary to form his or her judgment. The CRO shall meet with the board of directors/risk oversight committee on a regular basis and such meetings shall be duly minuted and adequately documented.

CROs shall be appointed and replaced with prior approval of the board of directors. In cases, when the CRO will be replaced, the bank shall report the same to the SES of the Bangko Sentral ng Pilipinas within 5 days from the time it has been approved by the board of directors.

Thrift, rural and cooperative banks, may appoint a CRO, or any equivalent position, who shall be subject to the independence and qualification requirements applicable to CROs for UBs and KBs.