

2013 Corporate Governance Report

“In UnionBank, we articulate our purpose as having significance, ‘making da diff’ in the lives of our customers and the communities we serve, and we do this by enabling and connecting communities through smart banking (expert, relevant, challenging convention) in the spirit of Ubuntu. Ubuntu is a Zulu word popularized by Bishop Desmond Tutu that means, a person is a person only through other persons. It is teamwork in progress, but it hopefully gives meaning and fulfillment for us UnionBankers when we connect to this purpose and is the start for us to build a more holistic, grass roots values based governance system institutionalized, but also internalized and lived day-to-day by every UnionBanker.”

- Justo A. Ortiz
Chairman, Board of Directors, and Chief Executive Officer
Keynote Speaker, Institute of Corporate Directors’
9th Annual Dinner
“Sustaining Change Through Values-Based Governance”

Corporate governance in UnionBank of the Philippines is about commitment to values and ethical business standards. Values-based governance is the linchpin for the existence and sustainable business growth of the Bank.

The Bank’s governance framework has the following key elements.

I. Board Governance

The Board of Directors serves as the foremost instrument for ensuring adherence to best governance practices. It oversees the Bank’s business, providing guidance in the achievement of its corporate objectives and the pursuit of operational and financial soundness for the benefit of its stakeholders.

Composition and Structure

The Board is composed of fifteen (15) members, including three (3) independent directors (ID), ten (10) non-executive directors (NED), and two (2) executive directors (ED). The qualifications and disqualifications of directors are set in the Manual on Corporate Governance of the Bank (CG Manual) in accordance with the regulations of the *Bangko Sentral ng Pilipinas* (BSP) and the Securities and Exchange Commission (SEC). The Board members hold office for one (1) year or until their successors are elected and qualified in accordance with the Bank’s By-Laws.

The Bank has a Nomination Sub-Committee that pre-screens the qualifications of, and prepares a final list of all candidates for its Board and key officers. Screening policies and parameters are set in place enabling the Committee to effectively review the qualifications of the nominees for regular and independent directors. After the nomination, the Nominations Sub-Committee shall prepare a final list of candidates which shall contain all the information about all the nominees for directors, as required by law and shall be made available to the appropriate government agency in-charge of monitoring compliance and to all stockholders through the filing and distribution of the Information Statement or in such other reports where the law or regulations require the Bank to submit. Only nominees whose names appear on the final list of candidates shall be eligible for election. No other nominations shall be entertained after the final list of candidates shall have been prepared.

The Board includes three independent directors as required by the BSP and the SEC. An independent director is defined as a person holding no interests or relationships with a bank that may hinder his independence from the bank or management or will interfere with the exercise of independent judgment in carrying out his responsibilities as a director. He should comply with all the qualifications required of an independent director and should not possess any of the disqualifications therefore as provided in the Securities Regulation Code (SRC) and

the Manual of Regulations for Banks (MORB) of the BSP; and has not withheld nor suppressed any information material to his qualification or disqualification as an independent director. They are nominated and elected in accordance with the rules of the BSP and the SEC. At present, retired Supreme Court Chief Justice Reynato S. Puno, Mr. Armand Braun and Mr. Carlos T. Raymond, Jr. sit as independent directors of the Bank's Board.

The members of the Board comply with the fit and proper rule of the BSP. Every election, Board members attest that they have all the qualifications required of a director and do not possess any of the disqualifications specified in the BSP MORB. They are apprised of their general and specific duties and responsibilities as directors prescribed by the MORB and are required to certify that they fully understand the same.

The Bank is committed to have diversity in membership in the Board. Subject to the qualifications set forth in the Bank's CG Manual, there exists no discrimination against gender and age in the nomination of the members of the Board. At present, Board membership includes a 36-year-old female director.

The Board is composed of members of proven competence and integrity. Its structure and composition enables the Board in fulfilling its duties and responsibilities which are provided in the Bank's By-Laws and CG Manual. They have sufficient knowledge and expertise to enable them to exercise effective governance and oversight. Through the Board members' distinct yet complementing competencies and experiences, they ensure a high standard of corporate governance. Profiles of the members of the Board are provided in the Bank's Annual Report (SEC Form 17-A) and Definitive Information Statement (SEC Form 20- IS).

Meetings

Board meetings are held every month or as necessary, and are regularly attended by its members. Annual schedule of meetings is set for approval of the Board before the start of calendar year. Schedule of board and committee meetings for 2013 was presented to and approved by the Board during its October 24, 2012 meeting.

Discussions and deliberations during Board meetings are open and independent views are given due respect and consideration. The Bank recognizes Board members who have religiously attended Board meetings. The Board held thirteen (13) meetings from March 2012 to February 2013.

MEMBERS (March 2012 to February 2013)		%
1.	Mr. Justo A. Ortiz (Chairman)	100
2.	Mr. Jon Ramon M. Aboitiz (Vice Chairman)	77
3.	Mr. Vicente R. Ayllon (Vice Chairman)	77
4.	Mr. Victor B. Valdepeñas (President)	100
5.	Mr. Erramon I. Aboitiz	77
6.	Mr. Iker M. Aboitiz	69
7.	Mr. Stephen G. Paradies	85
8.	Mr. Juan Antonio E. Bernad	100
9.	Mr. Mayo Jose Ongsingco	100
10.	Mr. Ricardo G. Librea*	100
11.	Mr. Emilio S. De Quiros, Jr.	92
12.	Ms. Eliza Bettina R. Antonino	77
13.	Mr. Daniel L. Edralin	77
14.	Mr. Armand F. Braun, Jr. (Independent Director)	92
15.	Mr. Carlos T. Raymond, Jr. (Independent Director)	100
16.	Chief Justice Reynato S. Puno (Ret) (Independent Director)	100
* Replaced by Puno effective Jan 1, 2013		

DIRECTORS PRESENT IN ANNUAL STOCKHOLDERS MEETING (May 25, 2012)	
1.	Mr. Justo A. Ortiz (Chairman)
2.	Mr. Vicente R. Ayllon (Vice Chairman)
3.	Mr. Victor B. Valdepeñas (President)
8.	Mr. Juan Antonio E. Bernad
9.	Mr. Mayo Jose Ongsingco
10.	Mr. Ricardo G. Librea
11.	Mr. Emilio S. De Quiros, Jr.
12.	Ms. Eliza Bettina R. Antonino
13.	Mr. Daniel L. Edralin
14.	Mr. Armand F. Braun, Jr. (Independent Director) -Chairman, Audit Committee
15.	Mr. Carlos T. Raymond, Jr. (Independent Director) -Chairman, Corporate Governance Committee

Board Trainings

The Corporate Governance Committee is responsible for making recommendations to the Board regarding required trainings and continuing education of directors.

All members of the Board have attended a one and a half day corporate governance orientation seminar for bank directors at BSP-accredited institutions in compliance with the MORB. These include extensive discussion on topics involving audit, risk and governance, financial stewardship and accountability. They also undergo orientation on the Bank's businesses as soon as they assume their positions. Representatives from key segments of the Bank present their respective business to newly elected directors. Continuing education is also provided which include training by the Bank and by outside service providers.

In 2012, the Bank held a corporate governance orientation seminar for its newly elected independent director, Mr. Carlos Raymond, Jr. together with other key officers of the Bank.

Performance Assessment

To evaluate the Board's effectiveness in carrying out its roles and responsibilities its members conduct periodic self-assessment of their performance, individually and as a body. The assessment aims to ensure that directors are aware of how well they are fulfilling their responsibilities as individual members and as part of the collegial board. It assists them in determining their strengths and weaknesses enabling them to formulate steps to resolve concerns.

The Compliance and Corporate Governance Office (CCGO) presents the proposed form to the Corporate Governance Committee, which in turn, endorses the same for approval of the Board. The self-assessment form is composed of varying statements based on the roles, functions and responsibilities of the Board found under the Bank's Manual of Corporate Governance, the SEC Corporate Governance Self-Rating Form and Revised Code of Corporate Governance, the Organization for Economic Co-operation and Development (OECD) Policy Brief on Corporate Governance of Banks in Asia, and the Basel Committee on Banking Supervision's Corporate Governance Guidelines.

The self rating form is divided into two parts. For the first part, each director is asked to rate (whether fair, excellent or needs improvement) his or her level of fulfillment to each duty as an individual member of the Board. The director is also asked for his or her comments on or

observation for every duty specified in the form. The second part is answered by each director as part of the Board, acting as a collegial body. For each statement relating to the responsibilities of the Board, he or she will be asked to choose from the responses, *i.e.* (1) Strongly Agree, (2) Agree, (3) Disagree, (4) Strongly Disagree, (5) Undecided.

The Board self-assessment is conducted annually and the results are discussed by the Corporate Governance Committee prior to its submission and communication to the Board. The Corporate Governance Committee oversees the conduct of assessment of the Board and its Committees.

The Board, through its Compensation and Remuneration Committee, also conducts an annual performance review of the Bank's Chairman/CEO and President/COO. The review consists of an assessment of the Chairman/CEO and President/COO's leadership in the attainment of the Bank's strategic initiatives. The review includes key results on the Bank's financials, operational efficiencies, innovations, customer franchise and brand growth, people development and engagement, compliance and governance.

Committees

To assist the Board in competently acting upon its responsibilities, it established nine committees, namely, the Executive Committee, the Risk Management Committee, the Market Risk Committee, the Operations Risk Management Committee, the Audit Committee, the Trust Committee, the Corporate Governance Committee, the Nominations Sub-Committee, and the Compensation & Remunerations Sub-Committee. The members of these committees also conduct periodic assessment of their specific committees' performance.

Their composition and functions are summarized below.

Executive Committee

The Executive Committee is composed of seven (7) members of the Board. It acts and exercises such functions and powers which are reserved for the Board during intervals between Board meetings, except the power to initiate reversals of, or departure from fundamental policies, procedures and guidelines prescribed by the Board itself, and subject to such restrictions as the Board may determine. All matters passed and acted upon by the Executive Committee are reported to the Board of Directors and subject to revision and alterations by the Board provided that no rights or third person are affected thereby.

Attendance	%
Jon Ramon M. Aboitiz (Chairman) (NED)	73
Justo Ortiz (ED)	94
Mayo Jose Ongsingco (NED)	74
Erramon I. Aboitiz (NED)	73
Daniel Edralin (NED)	88
Eliza Bettina Antonino (NED)	73
Armand Braun, Jr. (ID)	97

The Committee held thirty-three (33) meetings from March 2012 to February 2013.

Risk Management Committee

The Risk Management Committee consists of seven (7) members of the Board of Directors who possess varied range of knowledge and expertise concerning the Bank's risk exposures, its management and/or avoidance. The Committee develops appropriate strategies for preventing the occurrence of risk events and minimizing losses when these do happen. It oversees the Bank's risk management system to ensure that it remains effective, authority limits are observed, and immediate corrective actions are taken whenever limits are breached or risk events occur.

The Committee also develops, and implements, a written plan defining the strategies for managing and controlling the major risks.

Attendance	%
Jon Ramon Aboitiz (Chairman) (NED)	92
Justo Ortiz (ED)	100
Mayo Jose Ongsingco (NED)	75
Erramon I. Aboitiz (NED)	92
Daniel Edralin (NED)	100
Emilio De Quiros, Jr. (NED)	33
Armand Braun, Jr. (ID)	100

The Committee held twelve (12) meetings from March 2012 to February 2013.

Market Risk Committee

The Market Risk Committee is composed of the Chairman of the Board of Directors, the President and three (3) other members of the Board. The Committee sets policies and standards for market risk identification and analysis measurement, monitoring and control. The Committee's specific duties include, among others, management and reporting of market risk; ensuring that the market risk management process satisfies corporate policy; review of the Treasury Portfolio (including contingent accounts) on a monthly or regular basis and recommendation of valuation reserves, as necessary; review and endorsement of Treasury Risk Limits for Board approval; endorsement of Treasury-Related Product Programs and Manuals for approval of the Board of Directors; approval of models and systems used to calculate market risk; and promotion of continuous development of market risk programs and infrastructure.

Attendance	%
Jon Ramon M. Aboitiz (Chairman) (NED)	75
Justo Ortiz (ED)	92
Victor Valdepeñas (ED)	92
Mayo Jose Ongsingco (NED)	75
Daniel Edralin (NED)	92

The Committee held twelve (12) meetings from March 2012 to February 2013.

Operations Risk Management Committee

The Operations Risk Management Committee is composed of three (3) members of the Board and two members from Senior Management. The Committee covers, among others, (1) the adequacy of the Bank's policies, procedures, organization and resources for preventing, or limiting unexpected loss due to deficiencies in information systems; business, operational and management processes; employees skills and supervision, equipment and internal controls; (2) periodic or special risk assessments conducted in various businesses and operating units of the Bank to proactively uncover operational risks that can result to actual loss or damage; (3) results of internal audits, BSP examinations and investigation of administrative cases that highlight trends indicative of present or emerging exposures to specific operational risks; (4) risk assessment of major information systems to be implemented in the Bank; (5) regulatory compliance issues, whether currently existing, or anticipated to arise as a result of new laws or regulations; and (6) business continuity strategies, plans and procedures.

Attendance	%
Stephen Paradies (NED, Chairman)	100
Mayo Jose Ongsingco (NED)	75
Eliza Bettina Antonino (NED)	100
Edwin Bautista (Senior Management)	100
Teodoro Panganiban (Senior Management)	100

The Committee held four (4) meetings from March 2012 to February 2013.

Audit Committee

The Audit Committee is composed of five (5) members who are experts in accounting, auditing, or related financial management matters. The Committee members' skills, qualifications, and experience are appropriate for them to perform their duties as laid down by the Board. Two of these five members are independent directors, including the Chairman. (For profiles of the members, please see the Bank's Annual Report submitted to SEC in SEC Form 17-A, pages 39-42.)

The Committee serves as principal agent of the Board in ensuring the independence of the Bank's external auditors and the internal audit function, the integrity of management, and the adequacy of disclosures and reporting to stockholders. It also oversees the Bank's financial reporting process on behalf of the Board. It assists the Board in fulfilling its fiduciary responsibilities as to accounting policies, reporting practices and the sufficiency of auditing relative thereto, and regulatory compliance. The Committee is empowered to independently review the integrity of the Bank's financial reporting and oversee the independence of the external auditors.

The Bank's Audit Committee has the primary responsibility to recommend the appointment, re-appointment and removal of external auditors, subject to approval by the Board of Directors and confirmation of the stockholders.

The Internal Audit Division, which reports directly to the Audit Committee, provides independent and objective assurance and advisory services to the Bank.

Attendance	%
Armand Braun, Jr. (ID, Chairman)	100
Stephen Paradies (NED)	80
Carlos Raymond, Jr. (ID)	100
Ricardo Librea (NED)	100
Eliza Bettina Antonino (NED)	73

The Committee held fifteen (15) meetings from March 2012 to February 2013.

Trust Committee

The Trust Committee is composed of four (4) members: three (3) of whom are members of the Board, the President, and the Trust Officer. No member of the Audit Committee sits concurrently as a member of the Trust Committee in compliance with Sec. X 406.1 of the MORB.

The Trust Committee acts within the sphere of authority as may be provided in the Bank's By-Laws, and/or as may be delegated by the Board such as, but not limited to: the acceptance and closing of trust and other fiduciary accounts; the initial review of assets placed under the trustee's fiduciary custody; the investment, reinvestment, and disposition of funds or properties; and the review of trust and other fiduciary accounts at least once every twelve (12) months to determine the advisability of retaining or disposing of the trust or fiduciary assets, and/or whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship.

Attendance	%
Juan Antonio Bernad (NED, Chairman)	100
Victor Valdepeñas (ED)	100
Mayo Jose Ongsingco (NED)	70
Roberto Rol Ramos (Trust Officer)	100

The Committee held twelve (12) meetings from March 2012 to February 2013.

Corporate Governance Committee

The Board is primarily assisted by the Corporate Governance Committee in fulfilling its corporate governance responsibilities. The Committee recommends governance policies to the Board based on the regulations of the BSP, the SEC, the Philippine Stock Exchange (PSE), as well as those which are internationally recognized as industry best practices. It serves as the primary resource for the Board to study and evaluate itself, as a body, and its Committees' structure, policies and practices with the objective of raising the bar for the Bank's corporate governance.

The specific duties of the Committee include, among others, making recommendations to the Board regarding continuing education of directors and overseeing the periodic performance evaluation of the Board, its Committees and senior management. It has two sub-committees, namely, the Nominations Sub-Committee and the Compensation and Remuneration Sub-Committee.

The Committee has seven (7) members of the Board, two of whom are Independent Directors and one belonging to the Bank's senior management. The Committee annually evaluates the governance state of the Bank by using as benchmark the Corporate Governance Scorecard of the Institute of Corporate Directors for publicly listed companies and banks, the PSE's Corporate Governance Guidelines Disclosure and other relevant governance metrics.

From March 2012 to February 2013, it held three (3) meetings and discussed, among others, regulatory updates and industry best practices on governance such as the PSE's Corporate Governance Guidelines, the SEC's requirement of participating in Corporate Governance Scorecards for banks and publicly listed companies (PLCs), and BSP's Guidelines in Strengthening Corporate Governance Standards in Financial Institutions, and the ASEAN Corporate Governance Scorecard.

Attendance	%
Carlos Raymond, Jr. (ID & Chairman)	100
Justo Ortiz (ED)	100
Jon Ramon Aboitiz (NED)	67
Ricardo Librea	67
Erramon Aboitiz	67
Emilio De Quiros, Jr. (NED)	67
Armand Braun, Jr. (ID)	67

Nominations Sub-Committee

The Nominations Sub-Committee is comprised of seven (7) voting members of the Board, one of whom is an Independent Director, and one non-voting member in the person of the Human Resources Director. The Nominations Committee is responsible for reviewing the qualifications of and screening candidates for the Board and key officers of the Bank. It oversees the implementation of programs for identifying, retaining and developing critical officers and the succession plan for various units in the organization.

Attendance	%
Jon Ramon Aboitiz (Chairman, NED)	100
Justo Ortiz (ED)	100
Erramon Aboitiz (NED)	50
Vicente Ayllon (NED)	-
Eliza Bettina Antonio (NED)	50
Armand Braun (ID)	100
Michelle Rubio (Senior Management)	100

The Committee held two (2) meetings from March 2012 to February 2013.

Compensation and Remuneration Sub-Committee

The Compensation and Remuneration Sub-Committee is composed of five (5) members of the Board, one of whom is an Independent Director. It is responsible for overseeing implementation of the programs for salaries and benefits of Directors and senior management. It monitors adequacy, effectiveness and consistency of compensation program vis-à-vis corporate philosophy and strategy.

Attendance	%
Jon Ramon Aboitiz (Chairman, NED)	100
Justo Ortiz (ED)	100
Erramon Aboitiz (NED)	50
Vicente Ayllon (NED)	-
Erramon Aboitiz (NED)	50
Carlos Raymond, Jr. (ID)	100

The Committee held one meeting from March 2012 to February 2013.

The Corporate Secretary

The Bank's Corporate Secretary plays a pivotal role in assisting the Board in the performance of its duties. In all the activities of the Board, the Corporate Secretary ensures that Board policies and procedures are observed. The Board has separate and independent access to the Corporate Secretary who, among others, oversees the adequate flow of information to the Board prior to and during meetings, and serves as an adviser to the Directors on their responsibilities and obligations.

Atty. Fe B. Macalino is the Bank's Corporate Secretary. Her profile is provided in SEC Form 17-A.

II. GOVERNANCE POLICIES AND MECHANISMS

The Bank has adopted governance policies and mechanisms serving as its foundation for good governance. These are principally found on its Articles of Incorporation and By-Laws. The Bank nonetheless continues to adopt more policies and mechanisms in accordance with established rules and best practices.

Manual on Corporate Governance

The Bank's CG Manual embodies leading principles and practices on good corporate governance. It lays down, among others, the qualifications and disqualifications of the members of the Board as well as their duties and responsibilities. It further provides for the qualifications of key officers that assist the Board in performing its governance functions, *i.e.* the Chairman of the Board, the management, corporate secretary, compliance officer, external auditor and internal auditor.

The CG Manual is also a compilation of policies on the compliance system and disclosure and transparency aimed at upholding the rights of the Bank's stakeholders. Most importantly, it underscores the Bank's recognition and continuous promotion of the rights of its stockholders. The Bank's CG Manual is subject to periodic review by the Board, as initiated by its Corporate Governance Committee, based on updates in regulatory and industry best practices.

Among the policies contained in the CG Manual are the following:

Policy on Conflict of Interest

As part of its on-going efforts to uphold equitable treatment of its shareholders and stakeholders, the Bank intensified its policies on conflict of interest and related party transactions which have long been in existence in the Bank's Code of Conduct.

The Revised Manual provides that a conflict of interest exists when the personal, business or other related interest of a director, officer or employee adversely interfere in any way, or could reasonably be perceived to adversely interfere, with that of the Bank. It also provides for the duties of Directors, officers and employees to immediately disclose any involvement in material conflict of interest and not to participate in the decision-making process relating to the transaction.

Related Party Transactions

It is the policy of the Bank to ensure that related party transactions are all entered into on arm's length standard. These transactions are made and entered into substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks. Hence, they likewise go through the same process applicable to ordinary or unrelated party transactions as set forth in the Bank's Purchasing Guidelines. The Bank has in place a Procedural Guidelines for Monitoring Related Party Transactions approved by the Board of Directors.

Alternative Dispute Resolution System

The Bank subscribes to the view that "an important determinant of the degree to which shareholder rights are protected is whether effective methods exist to obtain redress for grievances at a reasonable cost and without excessive delay."¹ It is the Bank's policy to continue building harmonious relationship with its stockholders and other parties with whom it may have obligations or contract with. It thus adheres to appropriate alternative dispute resolution system for early settlement of conflicts with its stockholders and other parties, as found in its Revised Manual.

Remuneration Policy

The Bank's Compensation and Remuneration Committee assists the Board by recommending and overseeing the implementation of programs for the remuneration of the members of the Board of Directors and Senior Management. Directors receive per diems for attendance in meetings of the Board and its committees in accordance with the Bank's By-Laws but do not receive compensation for services rendered.

¹ *Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance, 2004.*

The Bank's key executives and officers receive salaries, bonuses and other standard bank benefits and fringe benefit loan program, as approved by the BSP, in accordance with the performance management philosophy of the Bank based on meritocracy or pay for performance.

Compliance Program

The Bank has in place a Board-approved Compliance Program that adheres to external rules and regulations especially those issued by the BSP, SEC, PSE, Philippine Deposit Insurance Corporation (PDIC), Anti-Money Laundering Council (AMLC), and other regulatory agencies. The Compliance and Corporate Governance Office, the Office of the Corporate Secretary, and the Bank's various units, are responsible for ensuring compliance with regulatory enactments, statutes or circulars, and other requirements of these regulatory agencies. On 28 October 2011, the Board approved the Bank's revised Compliance Program, which is further designed to ensure adherence not only to all laws, regulations and circulars relevant to its business, but also to the Bank's internal policies, including its Code of Conduct, as well as to industry-accepted best practices.

Anti-Money Laundering Efforts

The Bank has its own programs and procedures to support the anti-money laundering efforts of the BSP, AMLC, and other regulatory agencies of the government.

Its Money Laundering and Terrorist Financing Prevention Program (MLPP), updated on 28 October 2011, provides an easy access to laws and regulations pertinent to anti-money laundering, guidelines on know-your-customer (KYC) requirements, the Bank's anti-money laundering training programs, and other relevant information. The Bank's Anti-Money Laundering Committee exercises oversight functions on the Bank's compliance with Anti-Money Laundering Act, as well as other regulations of the BSP, AMLC and other regulatory bodies and agencies.

The Bank has similarly improved its anti-money laundering orientation, training and refresher programs by providing every officer and personnel easy intranet access to its anti-money laundering electronic learning system (AML eLearning). The AML eLearning system gives a user-friendly, interactive approach in proving each employee of the Bank information and education on the anti-money laundering efforts not only of the Government, but also of the Bank. The employee is further gauged on his or her knowledge by providing a graded test after the program.

Disclosure and Transparency

The Bank considers timely and fair disclosure of material information relating to the Bank's operations as crucial for the protection of shareholders' rights. It is thus compliant with regulations

on disclosure. The Bank submits various periodic and non-periodic reports required under applicable laws and regulations. It submits current reports to the SEC and the PSE, as necessary, to make full, fair, accurate and timely disclosures to the public on material facts or events that may reasonably be expected to affect investors' decision in relation to the Bank's securities.

Audit System

Directly reporting to the Board's Audit Committee, the Bank's Internal Audit Division (IAD) provides reasonable assurance to the Board, Senior Management, and its stockholders that the Bank's risk management activities are effective. This involves providing assurance that Bank's key organizational and procedural controls are effective, appropriate, and complied with. It also conducts special administrative investigations when required to do so pursuant to the Bank's Code of Conduct. The Division has its own charter which directs performance of its functions. IAD is headed by Ms. Myrna E. Amahan, a vice president of the Bank.

The Bank engages the services of an independent external auditor, who examines the financial statements of the Bank in accordance with generally accepted auditing standards and expresses its opinion on the fairness of its presentation upon completion of such examination.

The Bank's Audit Committee has the primary responsibility to recommend the appointment, re-appointment and removal of external auditors, subject to approval by the Board of Directors and confirmation of the stockholders.

A brief profile of the Bank's present external auditor and the services it provides, follows:

External Auditor - Punongbayan & Araullo

Profile

P & A was founded in 1988 by two prominent leaders in the accounting profession in the Philippines, Benjamin R. Punongbayan and Jose G. Araullo. It grew from a personnel complement of only seven people in 1988, to over six hundred people today. It is a member of Grant Thornton International, one of the world's leading organizations of independently owned and managed accounting and consulting firms. It is also an accredited auditing firm by the SEC and BSP.

P & A's offices are located at the 20th floor, Tower I, The Enterprise Center, 6766 Ayala Avenue, 1200 Makati City, Metro Manila.

Services to the Bank

P & A's services consist of the audit of the financial statements of the Bank as of and for the year ending 31 December 2009 to enable them to express an opinion on the fairness of the Bank's financial position, results of operations and cash flows in accordance with Philippine Financial Reporting Standards (PFRS). It is likewise engaged to audit the financial statements of each Unit Investment Trust Fund (UITF) managed by the Bank's Trust and Investment Services Group, also as of and for the year ending 31 December 2009.

There were no changes in and disagreements with the Bank's external auditors, P&A, on accounting principles or practices, financial statement disclosures or auditing scope or procedure for the two (2) most recent years ended December 31, 2012 and 2011.

Fair Securities Dealing

In order to continually uphold transparency and integrity in the trading in its securities, the Bank has adopted a Trading Guidelines and Blackout Policy. This aims to apprise and to ensure compliance by all “Covered Persons” of the Bank with their obligations under the SRC and other securities rules and regulations relating to the trading or dealing of the Bank’s shares. Covered Persons refer to directors, principal officers, and all other employees of the Bank who are made aware of undisclosed material non-public information, including their immediate families living in the same household.

To protect the investing public, the Chief Compliance and Corporate Governance Officer issues notices of trading blackout which prohibits the trading of the Bank’s shares within defined periods before and after material non-public information are disclosed and made available to the public.

Directors, principal officers of the Bank and the rest of the covered persons are also mandated to report to the Stock Transfer Unit or the Human Resources Services their transactions involving the Bank’s shares or any changes therein no later than ONE trading day after such transaction/s.

Governance Evaluation System

The Bank utilizes various measures to gauge its state of corporate governance. The annual conduct of self-assessment by the Board and its Committees as well as the external ratings and surveys of regulatory agencies and private organizations form part of the Bank’s evaluation system to determine its level of corporate governance. The Bank publicly projects and obtains independent feedback on the state of its corporate governance through the following means: First, the Bank complied with the requirement of the SEC on one-time submission of its Corporate Governance Self Rating Form in July 2003.

Second, it participates annually in the Corporate Governance Scorecard Survey of the Institute of Corporate Directors (ICD) for publicly listed companies (PLCs) as required by the SEC.

The Corporate Governance Scorecard Survey for PLCs evaluates a company’s corporate governance based on disclosure and transparency (25% weight), board responsibilities (25%), rights of shareholders (20%), equitable treatment of shareholders (20%) and role of stakeholders (10%). The Bank has been consistently recognized as a Silver Awardee in both 2009 and 2010 Corporate Governance Scorecard surveys for PLCs. In the last run of ICD’s corporate governance scorecard for 2011, the Bank received a gold award for garnering 96% rating. For 2012, the Bank participated in the ASEAN corporate governance scorecard, the results of which are yet to be announced.

Third, since 2010, the Bank accomplishes and submits its Corporate Governance Guidelines Disclosure (CG Guidelines Disclosure) as required by the PSE. Since then, the Bank has been 97% compliant with the corporate governance practices and recommendations of the PSE.

Finally, the Bank annually certifies the Bank’s compliance with the SEC’s Code of Corporate Governance. Last January 30, 2012, through its Chief Compliance & Corporate Governance Officer, certified that for the year 2012, the Bank complied with the provisions of the said code. Said certification was submitted to SEC and PSE.

III. ETHICAL STANDARDS

The Bank’s philosophy for corporate governance extends beyond prescribed mandates and obligations. The Bank has a Code of Conduct operating as its steward for ensuring observance of high standards of responsible banking business. The Code empowers and guides all employees and other persons to whom it may be applicable in certain instances. It is divided into three parts, namely, Ethical Standards, Disciplinary Action, and Procedure for Administrative Due Process.

Each copy of the Bank’s Code of Conduct distributed to employees is accompanied by two forms, *i.e.* copy of certification of compliance with the Code and Disclosure of Conflict of Interest, and a copy of problem escalation report form.

The Code provides a policy on the responsibility of employees for reporting actual or possible violation of a law, regulation, the Bank’s Code or any policy. Duty is also imposed upon those who are aware of any condition that creates undue material risk to the Bank to promptly report the same to his or her supervisor. Alternatively, he or she may report the infractions to the next higher in management, Operations Controller, Internal Audit Division and Human Resources Services Group. It also provides a policy for the protection of employees who report infractions or risks.

The Unit Compliance Officers and the Internal Audit Division conduct their fact-finding investigations for violation of the Code for cases falling within their respective jurisdictions. Investigation reports of these bodies, consisting of facts of the case, modifying circumstances, if any, provisions of the Code violated, decisions in previous administrative cases, and any applicable laws and jurisprudence, are submitted to the Discipline Committee.

The Discipline Committee, after determination that the investigation reports of the fact-finding bodies are complete, deliberates on the propriety of the offense established by the fact-finding bodies and the recommended disciplinary actions therefore. Should there be a need for further clarification, the Discipline Committee summons the employee concerned for clarificatory conference.

The employee concerned may be accompanied by a counsel or any Bank employee or union officer (for rank and file). The Discipline Committee thereafter submits its recommendation on the case to the center head of the employee involved.

Also embodied in the Code is the Bank's policy that no employee will be retaliated against as a result of having made the report. Questions concerning protection for such an employee should be addressed to the appropriate Compliance Officer or the Human Resources Director.

Guided by its Code, the Bank has consistently conducted its business in accordance with its pledged values to its other stakeholders, thereby creating goodwill in the industry.

IV. Stakeholders Relations

Good governance of the Bank requires and promotes a healthy relationship with its stakeholders to whom it has duties and obligations. The Bank is devoted to a high level of moral conduct and fair dealing with all its stakeholders, who generally include its **employees, depositors and other clients, suppliers, environment, the state, and the community it operates.**

- **EMPLOYEES**

The Bank affirms that its employees play a very important role in achieving its long-term success. The Bank's future as a business and as an institution is greatly dependent on the knowledge, skills, integrity, innovativeness and loyalty of its people.

The Bank is committed to provide its employees with a workplace free of sexual harassment, as well as harassment based on factors such as race, color, religion, age, marital status, sexual orientation, or disability.

It ensures that its employees are competent, dedicated and upright through proper talent selection and acquisition. Employees are given proper orientation and training to improve and further develop their skills and potentials. To facilitate this, the Bank has established its own university known as the "UnionBank University" comprising of various academies where employees get relevant training in various disciplines important to the Bank's success.

Employees are entitled to competitive benefits, including a defined retirement plan. Rank and file employees are protected through proper representation during collective bargaining with the management.

Qualified employees of the Bank may avail of the Stock Investment Loan Program (SILP). Through this, employees' interest in and loyalty to the Bank are enhanced, as they become its stockholders. To protect other investors and ensure fair dealing, the securities transactions of employees are subjected to the Bank's Trading Guidelines and Blackout Policy.

The Bank, through its Human Resources Services Group, launched the "U Care" project which serves as an avenue for promoting health, personality development and general welfare of employees. The project also gives opportunity for employees to lend needed assistance to their co-employees and other persons outside of the Bank.

In 2012, the Bank held several brown bag sessions on prevention of cancer ("CANSurvive") and hypertension (HB Unlike). There were medical check ups like Luvaholic Healthy Heart Medical Check Up and "Tutok Kalusugan" - an annual health fair for employees and their families. Various sports-oriented activities were hosted by the Bank for its employees such as "U Run," Dart Olympics, bowling, etc. Security bulletins were issued for employees to alert them on ATM crime modus operandi, email scam, etc. Fire, earthquake and emergency evacuation drills were also conducted to promote emergency preparedness. (Conduct of these activities may be viewed in the Bank's website.)

- **SHAREHOLDERS, INVESTORS AND CREDITORS**

Maximization of shareholders' wealth is a primary duty of the Bank. It is committed to protect shareholders' rights as expressed in the Bank's CG Manual, remove impediments to the exercise of these rights and allow shareholders opportunity to seek redress for violation of the same.

The Bank encourages its shareholders to attend annual stockholders' meeting and exercise their right to elect directors. If shareholders cannot cast their votes personally, they are given the right to vote by proxy. A month before the annual meeting, shareholders are furnished with copies of the Bank's Preliminary Information Statement, accompanied by its Annual Report and Audited Financial Statements.

Minority shareholders are granted the right to propose the holding of a meeting, and recommend items for inclusion in the agenda, provided these for legitimate business purposes.

Shareholders have the right to remove and replace directors and vote on certain corporate acts, inspect corporate books and records and be furnished with annual reports and financial statements. They may dissent from corporate acts and demand payment of the fair value of their shares in the manner provided for under the Corporation Code. Shareholders have the right to dividends, which shall be declared and paid out of the Bank's unrestricted retained earnings as often and at such times as the Board may determine after making provision for necessary reserves in accordance with law and the regulations of the BSP.

The Bank has mechanisms to maintain frequent and clear communication with its shareholders, investors and creditors. It has accessible channels, e.g. company website (www.unionbankph.com) and periodic "UnionBanker" newsletters, where its shareholders and investors are informed of important announcements and disclosures in addition to the Bank's submissions to regulatory bodies. It has an Investor Relations Office (IRO) whose mission is to strengthen the Bank's relations with outside parties through the development and implementation of an investor relations program.

The Bank participates in the regular conduct of analysts' briefings by one of its principal stockholders, Aboitiz Equity Ventures. IRO conducts face-to-face meetings with investors, financial analysts, investment banks, rating agencies, the investing public, and other interested parties on a per-need or per-request basis. Discussions are held with business reporters to provide deeper appreciation and understanding of the Bank's unique culture and competitive advantages. Conference calls are conducted for investors and analysts located outside the Philippines. If the subject matters of interest call for expertise on a specific subject, the IRO may invite other Bank executives to participate in the discussion. The IRO immediately responds to investors' and analysts' queries or concerns via telephone and e-mail.

- **DEPOSITORS AND OTHER CUSTOMERS**

The Bank is conscious of the special nature of its business that is imbued with public interest, and which imposes a more exacting standard of governance than that required by of other enterprises.

The Bank recognizes its obligation to be truthful and objective in its dealing with its customers. While it is entitled to employ all fair and honest means to promote its products and services, it does not, however, knowingly make false representations to customers. All employees of the Bank deal with its depositors and customers in a manner that creates value for them through appropriate and sound banking practices. The Bank is cognizant of, and consistently observes the Bank Secrecy Law, Anti-Money Laundering Act, and other laws governing the banking industry.

The Bank provides in its website information on consumer protection such as safe surfing guidelines and other security awareness information for its depositors and customers.

- **SUPPLIERS**

The Bank upholds the principles of truthfulness, fairness and respect in its dealings with its suppliers. It continues to build and maintain good relations with them, honoring agreements which are entered into in conformity with the law and public policy.

All purchases of equipment, supplies and services for the Bank are made on the basis of quality, utility and price offered by the vendor. While the Bank may actively negotiate for favorable terms with its suppliers, it does not knowingly mislead them with respect to competitors' price and terms, its plans for future purchases, or other particulars of their transactions. The Bank does not use its vantage position as customer of the supplier, to impose unfair conditions that could not have been obtained by negotiations in good faith, or commit acts or omissions that unjustly breach contractual obligations.

- **STATE**

The Bank has great respect for the State which conferred its juridical personality. It is the Bank's policy to fully comply with all applicable laws and regulations with the end view of meeting the legal standards of business conduct.

- **COMMUNITY**

The Bank keeps its duty to the public to provide banking services and products suitable to their needs. It will continuously uphold its commitment to meaningful and efficient services carried out in its realm of strong governance standards.

The Corporate Philanthropy and Social Responsibility (CPSR) Unit of the Bank is the implementing body of its commitment to making the difference for the community with the purpose of connecting with and enabling society.

The Unit's flagship program is the UnionBank Learning System: Developmental Reading Integrated with Values Education for Good Citizenship. In 2012, CPSR's programs, include among others, Classrooms / School Building Donation to Barugo National High School, Leyte; Relief Assistance for Habagat Victims; Donation for 100 houses in Xavier Ecoville, Lumbia, CDO City for Typhoon Sendong Beneficiaries.

- **ENVIRONMENT**

The Bank is an environment-sensitive organization. It is committed to environmental protection especially in areas encompassed by its business operations. Through the years, it has provided and promoted programs advocating environment preservation and supports activities for advancing environment awareness and protection.

In 2012, the Bank held activities espousing environment protection awareness among employees, e.g., Think Green, Go Green - Tree Planting in Manila & Cebu. Brown bag sessions were organized to discuss climate change and earth hour.