BPI holds itself to the principles of good and transparent governance as contained in the Bank’s Manual of Corporate Governance. The Bank’s Corporate Governance Scorecard and the BSP Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity, and Sensitivity to Market Risks (CAMELS) rating provide measures of its governance quality. BPI has a CAMELS rating of 4 in its latest BSP examination, the highest among the local commercial banks.

**Board of Directors**
Primarily responsible for creating and enhancing long term shareholder value of BPI

<table>
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<tr>
<th>Composition</th>
<th>15 directors, inclusive of 5 Independent Directors who hold no interest or relationship with BPI</th>
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</table>
| Mandate     | • Sets strategic business directions of BPI  
• Appoints the Bank’s senior executive officers  
• Confirms the Bank’s organizational structures  
• Approves all major strategies and policies  
• Oversees all major risk-taking activities  
• Monitors the financial results  
• Measures and rewards the performance of management  
• Generates a reasonable investment return to shareholders  
• Provides independent check on management  
• May carry out its various responsibilities through its Executive Committee and delegate specific responsibilities to following sub-committees:  
  • Nominations Committee  
  • Personnel Compensation Committee  
  • Audit Committee  
  • Risk Management Committee (RMC)  
  • Corporate Governance Committee |

**CONFLICT OF INTEREST POLICY**
The personal interest of directors and officers should never prevail over the interest of the Bank. The directors and officers must promote the common interest of all shareholders and BPI.

**RISK MANAGEMENT**
BPI uses a Risk and Capital Management Framework that adheres to Bangko Sentral ng Pilipinas (BSP) regulations. This Framework also takes into account the implementation of an Internal Capital Adequacy Assessment Process (ICAAP) for the management of resources and the provision of adequate capital to cover the risk exposures. The Bank’s three major identified risks are:
1. Credit Risk
2. Market Risk - Liquidity risk and interest rate risk
3. Operational Risk - physical security risk, legal risk, regulatory risk, and reputation risk, among others.
RMC is tasked with risk management across enterprise and ensures that the structure, limits, and measurements comply with regulatory and international standards. On the other hand, several committees and units manage the risk exposures at the management side.

The Risk Management Office (RMO) is responsible for establishing and communicating the Bank’s enterprise risk management objectives and direction as well as updating risk management policies for approval of the RMC. The RMO manages the Bank’s exposures to market risk and liquidity risk through the FRMC, and the operational risk through the Operating Risk Management Committee (ORMC).

The Asset Management and Trust Group’s Investment Committee reviews and monitors exposure to market risk of the accounts under AMTG’s management through their FRMC.

Credit risk is managed by the Credit Policy Group (CPG) through policies and procedures that ensure identification, measurement, monitoring, control, and reporting of credit risk exposures. In 2010, CPG conducted stress tests and implemented the new pre-screening model for new applications and scoring model for non-depositors for the credit card business. These were reviewed and approved by the RMC.

Operating risks are also managed by consistent and diligent monitoring and review of key risk indicators (KRI), risk and control self-assessments (RCSA) and incidents management. The Operating Risk Management (ORM) Unit is responsible for formulating operating risk management policies of the Bank and reviewing business specific policies and procedures. In 2010, risk awareness courses, specifically, Operating Risk Management Overview and Information Security Risk Awareness, were enhanced and migrated to the eLearning platform for easy deployment to unibank employees. Database workflow systems were likewise implemented to facilitate the capture of data on all KRIs, the handling of incidents and the tracking of implementation of committed risk treatment measures. Of the 776 units in the bank, 97.4% participated in the RCSA exercise.

Business Continuity Management (BCM) ensures recovery of critical customer service facilities in the event of unplanned business interruptions. In 2010, all business units involved in the delivery of the Bank’s products and services conducted their annual business continuity drill. The Information Systems Group likewise ran its disaster recovery drill in live mode. Clients were able to do their normal banking transactions in all service channels and the Bank personnel conducted their usual operations from their workstations.

Systems Quality Assurance Management ensures compliance of automated systems to information security policies and control standards. Information Security Management protects the Bank from operating risks arising from the use of information technology (IT) in its business processes.

The Central Security Office (CSO) takes charge of the physical security of the Bank’s facilities and the safety of the Bank’s customers and employees. The CSO commenced development of its Central Video and Alarm Monitoring System (CVAMS) in 2010 to integrate the Bank’s various alarm systems and to respond more quickly to security incidents.

The Legal Services Department (LSD) oversees and ensures that the Bank’s legal risk exposure is kept to a minimum. The LSD proactively issues legal and tax advisories, conducts seminars, provides documentation services, and litigates cases filed by or against the Bank as well as identifies and assesses areas where litigation can be prevented or litigation costs can be minimized.

**MEASUREMENT OF RISK EXPOSURE**

The Bank measures credit risk exposure by using credit rating models that account for the Bank’s current exposure to the counterparty, to the counterparty’s probability of default, and the value recoverable from the counterparty in the event of default. The models were developed internally using statistical analysis and credit judgment, and their predictive power and performance are validated regularly. Credit risk exposures are classified according to rating grades and are monitored as they migrate between rating grades. The Bank constantly assesses and measures expected losses following internal and regulatory provisioning policy.

For market risk exposure, the Bank’s on and off books trading portfolio is subject to trading or revaluation gains and losses while the non-trading portfolio is exposed to interest rate risk – the volatility in net interest income as a result of fluctuations in interest rates. Market risk exposure from the trading position is measured using Value-at-Risk.
CORPORATE GOVERNANCE

(VaR) models. Interest rate risk exposure of the non-trading portfolio is measured by (i) the VaR of the present value of the portfolio’s future cash flows, and by (ii) the Earnings-at-Risk (EaR), or the probable loss in net interest income over the next twelve (12) months due to adverse movements in interest rates.

CAPITAL ADEQUACY

The Bank’s capital management framework is intended to ensure that there is capital sufficient to support the underlying risks of the Bank’s business activities. The bank has a Capital Management Committee (CMC) that oversees the management of the capital and risk assets of the BPI group of Companies and ensures compliance to the regulatory minimum capital adequacy requirement (CAR) and internal minimum capital adequacy requirement (IMCAR).

At present, the Bank uses the standardized regulatory approach in measuring both credit and market risk capital charges, and the regulatory basic indicator approach in measuring operating risk capital charge. For the credit risk capital charge measurement, activities for transitioning to the advanced approach are ongoing. The calibration of the Probability of Default (PD) per rating grade and the estimation of risk weights for large corporates were completed in 2010 and will be used in the Foundation Internal Ratings Based (IRB) approach. The forthcoming shift to the IRB approach is expected to provide the Bank capital relief.

BPI submitted its second version of ICAAP and conducted a second dialogue with the BSP. Said ICAAP document defined an internal CAR of 10.25%, with a capital buffer of 0.25% over the 10% Pillar I minimum CAR to cover exposure beyond Pillar I risks. For internal monitoring purposes, RMC approved an internal CAR of 11% at which management would review the bank’s capital adequacy and undertake actions to shore up capital if required.

COMPLIANCE SYSTEM

To ensure compliance with BSP regulations, the Bank has a Compliance Office that engages in active liaison and dialogue with the regulators. It promotes awareness to rules and regulations or new laws issued by the BSP and the Securities and Exchange Commission (SEC) by electronically posting these in a database. As a listed company, BPI’s compliance with the Securities Act, the SEC, and the Philippine Stock Exchange (PSE) are jointly reviewed by the Bank’s Compliance Office, Corporate Planning, and the Corporate Secretary.

Enforcement of compliance to the Bank’s Corporate Governance Manual, policies, and code of conduct happens in two parts. The first part is self-regulation within work...
units. The second part is audit reviews of the Compliance Office, Internal Audit Office, and the external auditors.

**INTERNAL AUDIT**

Internal Audit is an independent unit that reports directly to the Audit Committee. It maintains a quality assurance and improvement program that covers all aspects of internal audit activities, including regular reviews and evaluations to measure the extent and quality of adherence of all units to all risk control policies and procedures. The unit also ensures that all of the Bank’s hardware, software, and telecommunications systems are adequately secured and tightly controlled.

The professional competence of the Bank’s internal auditors is upgraded through training programs, conferences, and seminars that provide updates on auditing techniques, regulations, and banking products and services.

**ANTI-MONEY LAUNDERING**

The Anti-Money Laundering Unit (AMLU) monitors customer and counterparty transactions in compliance with the Anti-Money Laundering Law and various government regulations. AMLU’s IT system draws data from the Bank’s various application systems and analyzes these data for suspicious transactions and transaction patterns.

**COMMUNICATION AND INFORMATION**

The BPI Management is primarily responsible for financial reporting and control, and assessment of the Bank’s position and prospects and ensures adequate flow of information to the Board.

Likewise, the BPI Board of Directors is committed to fully disclose, at all times, all material information about the Bank for the benefit of its stockholders. All material information that could potentially affect share price, are publicly disclosed through the PSE and the SEC.