

# CORPORATE GOVERNANCE

BPI's culture of excellence, meritocracy, financial robustness and stability is founded on the Bank's governance practices – active Board of Directors oversight, diligent planning, rational risk taking, reportorial accuracy and transparency, compliance to all laws and regulations, and the promotion of ethical conduct.

The Bank's organization is guided by policies and procedures that are documented in various manuals, which are constantly reviewed and updated to conform to international best practices. The Bank considers the BSP Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity, and Sensitivity to Market Risks (CAMELS) rating as a measure of its governance quality. BPI has the highest CAMELS rating among local commercial banks in its latest BSP examination.

## BOARD OF DIRECTORS

The Bank's Board consists of fifteen (15), including four (4) independent, directors who are highly qualified business professionals, and collectively possess a broad range of expertise and experiences that are required in the governance of a financial services institution. Independent directors hold no interests affiliated with BPI, management or controlling shareholder at the time of his election or appointment and/or re-election. The Board is responsible for promoting long-term shareholder value and its directive includes setting of strategic business directions, appointment of senior executive officers (the Chairman, Vice-Chairman, President and Chief Executive Officer, Treasurer, Corporate Secretary, and some senior officers as provided for in the Bank's By-Laws), set-up of appropriate organizational structures, oversight of major risk-taking activities, and monitoring of business and management performance. Specific responsibilities of the

Board are delegated to its sub-committees: the Executive Committee, the Nominations Committee, the Personnel and Compensation Committee, the Audit Committee, the Corporate Governance Committee, the Trust Committee, and the Risk Management Committee (RMC).

## CONFLICT OF INTEREST POLICY

The personal interest of directors and officers are subordinate to the interest of the Bank. Directors and officers should not directly or indirectly derive personal profit or advantage by reason of their position in the Bank.

## OPERATIONS MANAGEMENT

The responsibility of managing BPI and implementing all major business strategies rests on the President and Chief Executive Officer who is in turn supported by the Chief Operating Officer and the senior management team.

Operations management is guided by specific objectives that have been set in formal planning process. Objectives are supported by well-defined operating policies and procedures to ensure accuracy and transparency of reports, customer satisfaction, integrity, efficiency, and accountability in the conduct of business. Management is periodically reviewed and rewarded according to their performance relative to assigned targets.

Operations management is supported by specific management committees: the Credit Committee, the Finance and Risk Management Committee (FRMC), the Investment Committee, and the Asset and Liability Committee. The members of these committees are composed of senior management of the Bank, including representatives of business segments, the Treasurer, the Risk Management Office (RMO), and other senior executives.



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**

For the computation of the regulatory Capital Adequacy Ratio (CAR), the Bank currently uses the regulatory standardized approach in measuring both credit and market risk capital charges, while the operating risk capital charge is measured using the regulatory basic indicator approach. BPI is currently developing an IRB model for measuring credit risk capital charge. An application with the BSP for the use of the IRB approach will be submitted in 2010. For the operating risk, the Bank has taken the initial steps of recording key risk indicators and operations losses to develop an advance modeling approach while for the market risk, internally developed models are being looked at.

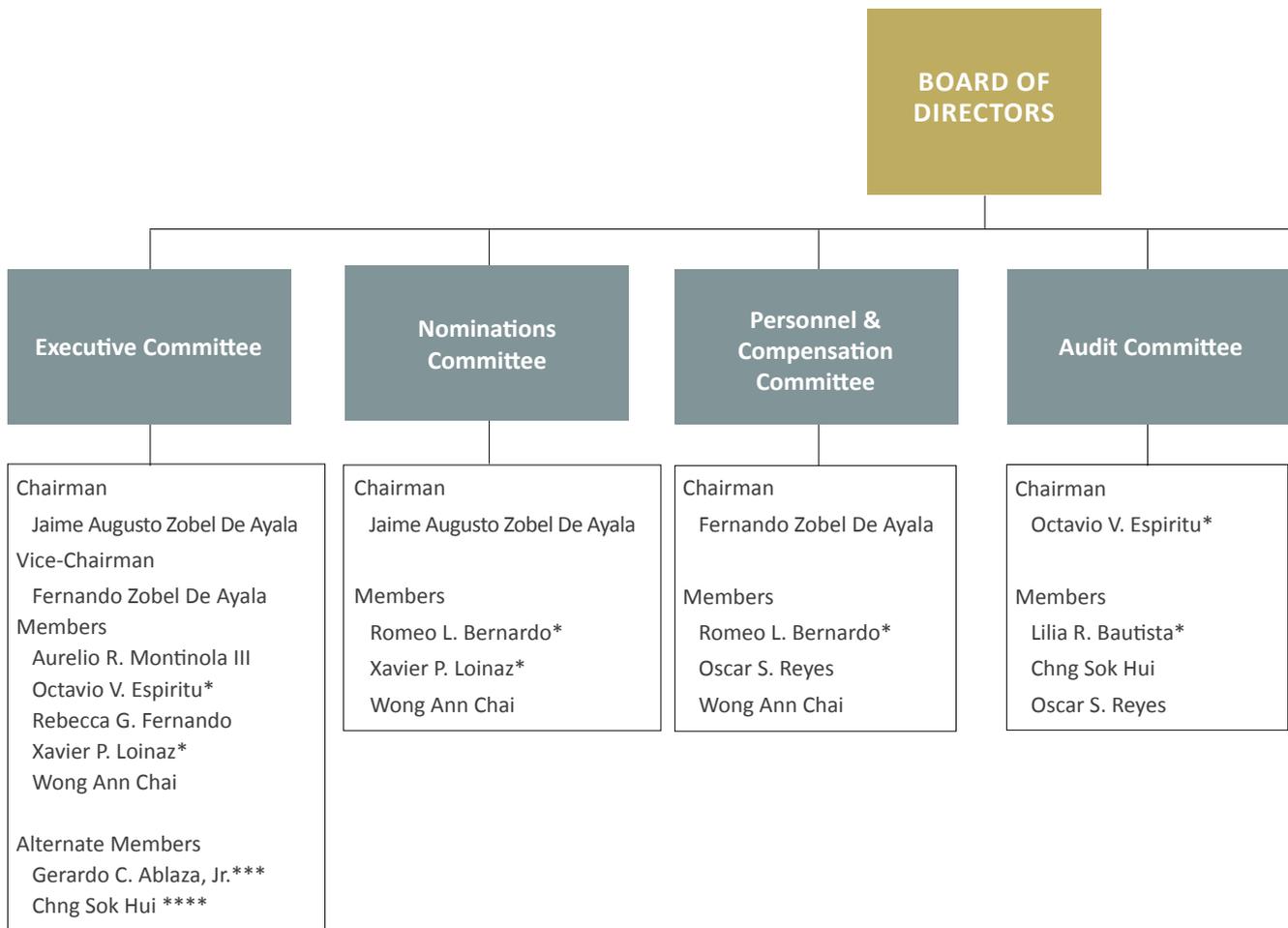
The Bank holds more than enough capital to provide for business growth and to satisfy regulatory guidelines consonant to the Basel I and Basel II Accords. The Bank's Risk and Capital Management Framework is intended to ensure that its capital is sufficient to cover all losses relating to the Bank's measurable risk exposures.

In anticipation of the regulatory directive for banks to conduct an ICAAP following Basel II – Pillar II guidelines, the Bank has organized an inter-unit team to document the process. An initial draft of the document was submitted to the BSP, and the team is now addressing the comments made by the BSP.

**COMPLIANCE SYSTEM**

The Compliance Office promotes compliance with the regulations of the BSP through active liaison and dialogue with regulators as well as the dissemination within the Bank of new regulations. The Office promotes awareness to rules and regulations/new laws issued by the BSP, and Securities and Exchange Commission (SEC) by electronically posting these in a database. As a listed company, the Bank'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.

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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 the 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 regularly reviews and scores the extent and quality of adherence of all units to all risk control policies and procedures and sees to it that all hardware, software, and telecommunications systems are adequately secured and tightly controlled.

Internal Audit maintains a quality assurance and improvement program that covers all aspects of internal audit activities. 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

Management is primarily responsible to the Board for the adequate flow of information, such as but not limited to financial information. Any variance between projections and actual results require Management's explanation to the Board.

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

