

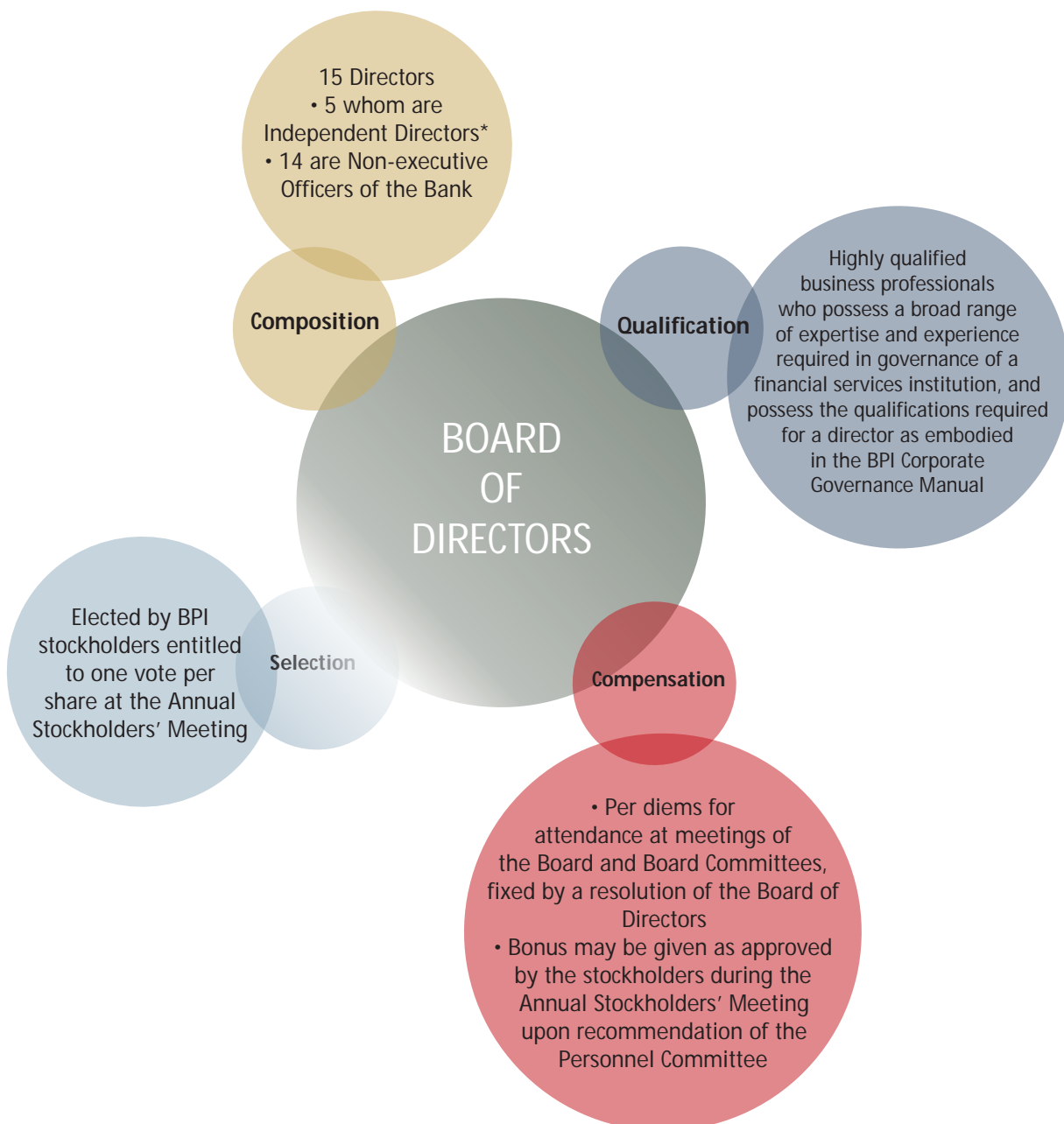
# CORPORATE GOVERNANCE

BPI's commitment to good and transparent corporate governance practices is anchored on our governance structure, sound risk management policies, internal discipline and compliance with applicable laws and regulations, and a system of checks and balances in our operating processes.

We are guided by policies and procedures that are documented in various manuals, which are constantly reviewed and updated to conform to international best practices. We consider the BSP Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity, and Sensitivity to Market Risks (CAMELS) rating as a measure of our governance quality. BPI has one of the highest CAMELS rating among local commercial banks.

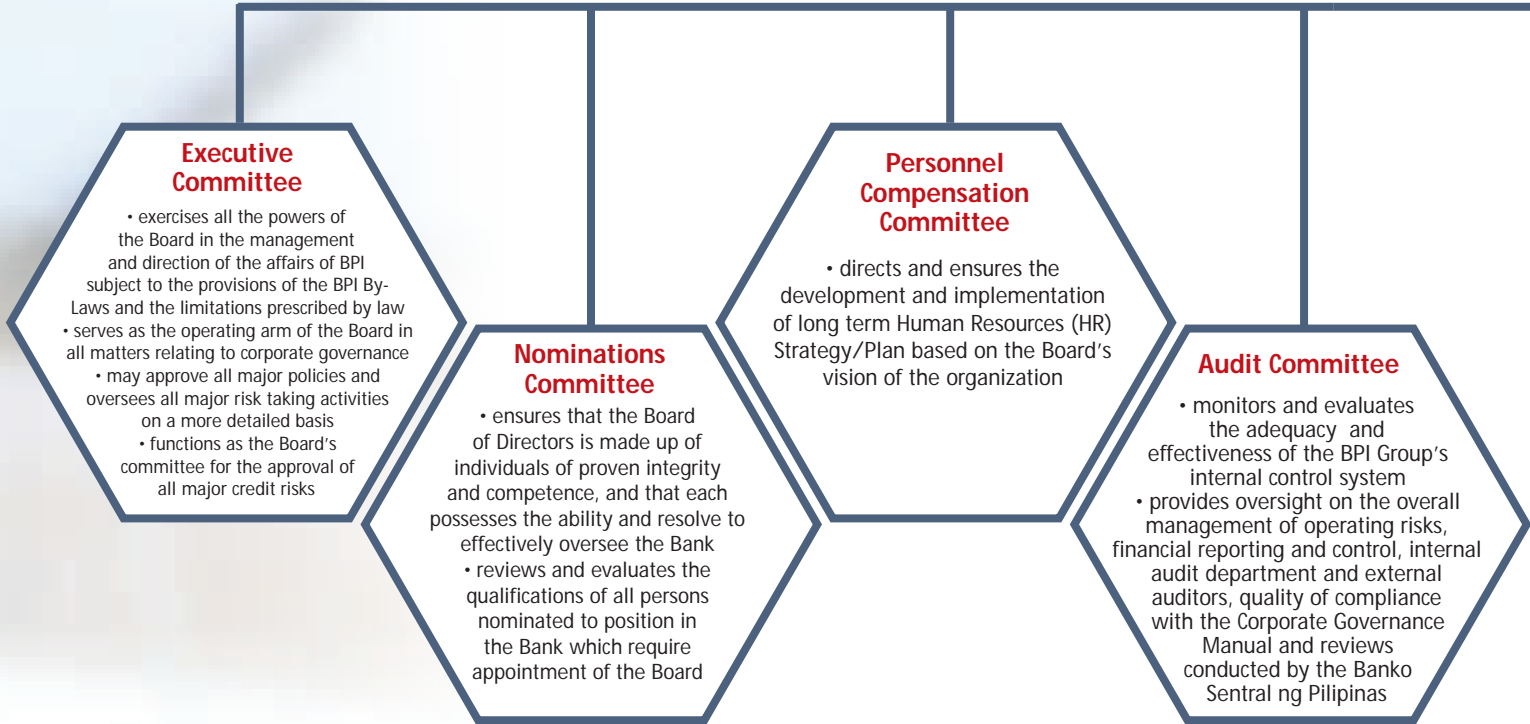
## BOARD OF DIRECTORS

Our Board of Directors (Board) is our highest governance body and bears the primary responsibility for creating and enhancing our long term shareholder value. They must ensure our ability to satisfy the needs of our customers, sustain our leadership and competitiveness, and uphold our reputation in order to maintain our long term success and viability as a business entity. Their directive includes setting of strategic business directions, appointment of senior executive officers, setup of appropriate organizational structures, oversight of major risk-taking activities, and monitoring of business and management performance.



\* no interests or relationships with BPI at the time of election or appointment and/or re-election

The Board may carry out their various responsibilities through the Executive Committee and delegate specific responsibilities to other sub-committees for specialized areas of focus within the limits allowed by law.



**BOARD OF DIRECTORS**

**Executive Committee**

**Nominations Committee**

**Personnel Compensation Committee**

**Audit Committee**

**Chairman**  
Jaime Augusto Zobel de Ayala

**Vice-Chairman**  
Fernando Zobel de Ayala

**Members**  
Aurelio R. Montinola III  
Octavio V. Espiritu\*  
Rebecca G. Fernando  
Xavier P. Loinaz\*  
Chng Sok Hui

**Alternate Member**  
Gerardo C. Ablaza, Jr.

**Alternate for:**  
Jaime Augusto Zobel de Ayala  
Fernando Zobel de Ayala  
Aurelio R. Montinola III

**Chairman**  
Romeo L. Bernardo\*

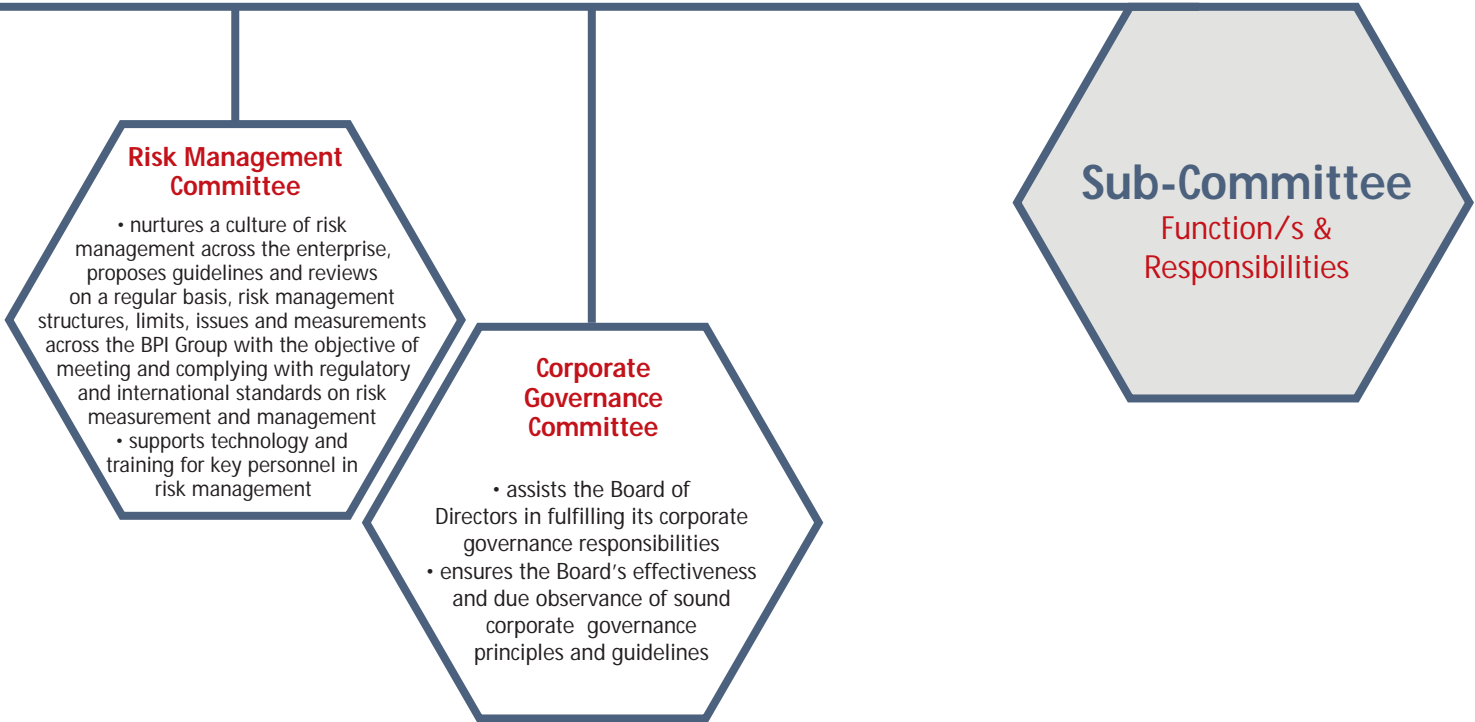
**Members**  
Jaime Augusto Zobel de Ayala  
Xavier P. Loinaz\*  
Chng Sok Hui

**Chairman**  
Fernando Zobel de Ayala

**Members**  
Romeo L. Bernardo\*  
Cezar P. Consing\*  
Oscar S. Reyes  
Chng Sok Hui

**Chairman**  
Xavier P. Loinaz\*

**Members**  
Octavio V. Espiritu\*  
Khoo Teng Cheong  
Oscar S. Reyes



**Risk Management Committee**

**Chairman**  
Octavio V. Espiritu\*

**Members**  
Aurelio R. Montinola III  
Gerardo C. Ablaza, Jr.  
Romeo L. Bernardo\*  
Khoo Teng Cheong  
Cezar P. Consing\*

**Corporate Governance Committee**

**Chairman**  
Artemio V. Panganiban\*

**Members**  
Romeo L. Bernardo\*  
Mercedita S. Nolleto  
Oscar S. Reyes  
Chng Sok Hui

**Trust Committee**

**Chairman**  
Mercedita S. Nolleto

**Vice-Chairman**  
Fernando Zobel de Ayala

**Members**  
Aurelio R. Montinola III  
Gerardo C. Ablaza, Jr.  
Romeo L. Bernardo\*  
Rebecca G. Fernando  
Maria Theresa M. Javier\*\*  
Tan Kong Khoon

**Retirement/Pension Committee**

**Chairman**  
Mercedita S. Nolleto

**Members**  
Aurelio R. Montinola III  
Rebecca G. Fernando  
Fidelina A. Corcuera\*\*\*

\* Independent Director  
\*\* Trust Officer  
\*\*\* Human Resource Officer

## OPERATING MANAGEMENT

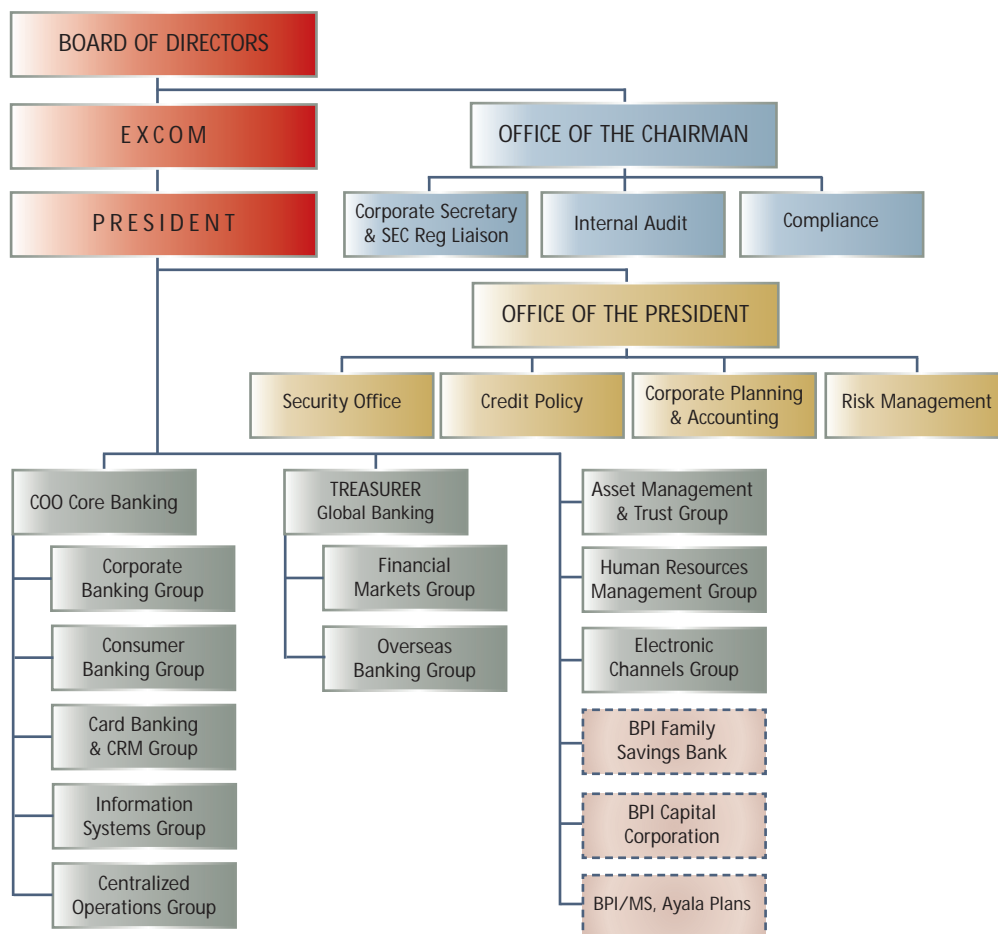
The responsibility of managing BPI and implementing all major business strategies rests on the President and Chief Executive Officer who is in turn supported by the Chief Operating Officer and the senior management team.

Operations management is guided by specific objectives that have been set through a 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.

Operating management is supported by specific management committees to ensure that major risks are identified, measured, and controlled through the imposition of appropriate limits. These management committees include:

- Credit Committee
- Finance and Risk Management Committee (FRMC)
- Operating Risk Management Committee (ORMC)
- Asset and Liability Committee

The members of these committees are composed of senior management of the Bank, including representatives of business segments, the Risk Management Office (RMO), and other senior executives.



## RISK MANAGEMENT

We have a Risk and Capital Management Framework for managing all of our risk exposures and for the provision of capital to cover such risk exposures. This Framework conforms to BSP regulations and mandate to implement an Internal Capital Adequacy Assessment Process (ICAAP).

Risk management is incumbent on the Board of Directors through the Risk Management Committee (RMC). At the management level, our risk exposure is managed by several committees and units. The Risk Management Office (RMO) is responsible for recommending risk management policies and methodologies, and for promoting enterprise-wide risk appreciation and education.

The Bank's major identified risks are credit risk, market risk (liquidity risk and interest rate risk) and operational risk (physical security risk, legal risk, regulatory risk, and reputation risk, among others). Due attention is given to credit risk and market risk in view of the significant size of our loans and financial assets, respectively, and to operations risk due to its significant share of our total risk weighted assets.

## CREDIT RISK

Credit risk is managed by the Credit Policy Group (CPG). CPG reviews and monitors credit risk exposures to ensure that these are within the Bank's credit standards and are in accordance with existing underwriting processes, limits and approval authorities. During the year, CPG reviewed 14 specific lending units and their review ratings were generally acceptable. Except for agricultural/agrarian lending, we complied with the regulatory single borrower's limit (SBL), directors, officers and related interest (DOSRI) and real estate ceilings. Note 32 of 2011 Audited Financial Statement presented details on related party transactions.

Our loan portfolio continued to be diversified across industry with no significant concentration in any industry. The manufacturing sector remains to be our largest exposure but our exposure is less than 10% for each of the sub-sector of this industry.

We have strengthened our specific reserves from 82% in 2010 to 88% coverage. We have provided a 100% reserves for unsecured NPL credit of over three years. More information on this are contained in Note 3.1 and Note 13 of the 2011 Audited Financial Statement which forms part of this Annual Report.

Our scoring models for Head Office Home and Property Equity Loans as well as that of Business Center Homes Loans were approved by the RMC and subsequently implemented in 2011. Moreover, in preparation for our transition to the Foundation Internal Ratings Based (IRB) approach, an external party has validated our Credit Risk Rating System. Our new model for large corporate accounts which incorporates the probability of default was approved by the RMC in December 2011 for implementation in the first quarter of 2012.

## MARKET RISK

The FRMC is supported by the Market Risk Management Unit that manages our exposures to market risk and liquidity risk. In 2011, the RMC approved the shift from parametric to Historical Simulation Value at Risk (VaR) methodology for foreign exchange forwards and swaps, the duration gap analysis as the basis for the calculation of Balance Sheet Value at Risk (BSVaR) limit, and the updated liquidity management plan and procedures. An independent Model Validation Unit was likewise set up under the Risk Management Office. Please refer to Note 3.2 of the 2011 Audited Financial Statement.

The Asset Management and Trust Group also has an FRMC that reviews and monitors exposure to market risk of the accounts under their management.

## OPERATING RISK

The RMO, through the ORMC, manages operating risks by monitoring and reviewing key risk indicators, RCSA, and incidents management. The ORMC is supported by the Operating Risk Management Unit (ORMU) that oversees the implementation of our enterprise-wide operating risk management programs consisting of policy formulation processes, key risk indicator monitoring processes, risk and control self-assessments, incident management processes, and risk management awareness and appreciation programs. Starting 2011, RCSA included a scorecard and more business process specific assessment templates. Online views for end-to-end risk assessment by channels and products have also been made available.

Information Security and Technology Risk Management protects us against operating risks arising from the use of information technology (IT) in our business processes, and promotes our competitiveness and long term viability through the use of appropriate and cost effective IT solutions. Systems Quality Assurance Management (SQM) ensures compliance of automated systems to information security polices and control standards.



Business Continuity Management (BCM) ensures recovery of critical customer service facilities in the event of unplanned business interruptions. To meet the increasing demand on Disaster Recovery Preparedness of our operations, we installed a bigger and more robust BCP site for critical head office services. We likewise continued to strengthen the employees' awareness of the Business Continuity programs through training and activities.

The Central Security Office (CSO) is responsible for the physical security of our facilities and the safety of our customers and employees. The CSO manages our physical security using a three-tiered defense system of intelligence, target hardening and incident management. Aside from deploying CCTVs in the branches, a Central Video and Alarm Monitoring System was likewise implemented.

The Legal Services Division (LSD) oversees the Bank's legal and tax risk exposure. It proactively issues legal and tax advisories, conducts training and lectures, provides documentation services, and litigates cases filed by or against BPI as well as identifies and assesses areas where litigation can be prevented, proceedings expedited and litigation costs minimized. For 2011, LSD purchased the Automated Legal Management System which will automate the monitoring and reporting of legal and tax cases of the BPI Group. Also, LSD developed the Tax Module on 'Basic Tax Laws and Principles' and conducted seminars to promote tax compliance awareness of the different units of Head Office, Branches and Business Centers.



## MEASUREMENT OF RISK EXPOSURE

We use various methodologies to measure risk exposure. We measure our credit risk exposure through credit rating models that account for our current exposure to the counterparty, 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. 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. Expected losses are constantly assessed and measured following internal and regulatory provisioning policy.

We manage the market risk exposures of both our trading and non-trading portfolios. Our assets in the on and off balance sheet trading portfolio are subject to trading (or revaluation) gains and losses. Market risk exposure from this portfolio is measured by VaR models. On the other hand, assets in the non-trading portfolio are exposed to interest rate risk or the volatility in net interest income as a result of fluctuations in interest rates. Interest rate risk exposure on this is measured by (i) the BSVaR or the impact on the economic value of the future cash flows in the banking book due to changes in interest rates; 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. Liquidity risk is measured by cumulative liquidity gap analysis over the next three months for both on and off book positions in both the trading and non-trading books.



## CAPITAL ADEQUACY

The Bank's Capital Management Committee oversees the management of the capital and risk assets of the BPI Group and ensures compliance with the regulatory minimum capital adequacy requirement (CAR) and internal minimum capital adequacy requirement (IMCAR).

For the computation of the regulatory CAR, we currently use 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.

Adhering to the regulatory directive for banks to conduct an Internal Capital Adequacy Assessment Process (ICAAP) following Basel II - Pillar II guidelines, we submitted our 2011 ICAAP to the BSP. This comprehensive evaluation of the BPI Group's material risks and capital adequacy reflected that we maintain a capital level that is commensurate to the nature and extent for most of the risks we have taken. We defined an internal CAR of 10.25% with a capital buffer of 0.25% over the 10% minimum CAR, to cover exposure beyond Pillar I risks. For internal monitoring purposes, the RMC approved a CAR Management Action Trigger (MAT) of 11% at which management would review our capital adequacy and undertake to shore up capital if required.

In the light of the BSP's recent announcements regarding the early implementation of Basel III, the Bank is undertaking initial assessments to evaluate the possible implications of adopting the new capital requirements to the business.



## COMPLIANCE SYSTEM

The Compliance Office promotes compliance with the regulations of the BSP and other regulatory agencies 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 Bangko Sentral ng Pilipinas and Securities and Exchange Commission (SEC) by electronically posting these in a database. As a listed company, our compliance with the Securities Act, the SEC and the Philippine Stock Exchange (PSE) is 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 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 Board thru the Audit Committee and assists in the discharge of its oversight responsibilities. Internal Audit's responsibility is to provide an independent and reasonable assurance on the BPI Group's system of risk management, controls and governance processes, and to ensure that operating and business units adhere to internal processes and procedures as well as to regulatory and legal requirements.

Internal Audit maintains a quality assurance and improvement program that covers all aspects of internal audit activities. This includes periodic internal quality assurance reviews, self-assessments and auditees surveys. External quality assessments are also carried out at least once every five years by qualified professionals from an external organization. This is to ensure quality of audit service delivery and conformance with the International Standards for the Professional Practice of Internal Auditing. Currently, another External Quality Assessment Review is being conducted by SGV & Co. / Ernst & Young on the Bank's Internal Audit.

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.

## CONFLICT OF INTEREST POLICY

As a matter of policy, the personal interest of directors and officers are subordinate to the interest of the Bank. Directors and officers are prohibited from directly or indirectly deriving personal profit or advantage by reason of their position in the Bank.

For the compliance and guidance of the Bank's employees, Conflict of Interest, and Whistleblower policies and guidelines, are included in the Management and Operating Manual (MOM) and Personnel Policy Manual. Aside from being electronically available to all employees, these policies are from time to time being broadcasted thru the Bank's email facility, the Lotus Notes, to serve as reminders.





## 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. We have instituted an Anti-Money Laundering Program that covers all companies of the BPI Group. The program outlines the policies and procedures on detecting or countering acts of money laundering, as well as handling of suspicious transactions. AMLU's IT system draws data from the Bank's various application systems and analyzes these data for suspicious transactions and transaction patterns.

To ensure that all employees are aware and knowledgeable of the AML Program, we require them to undergo an anti-money laundering training course.



## 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.



For more details on our corporate governance, pls. check out our website - [www.bpiexpressonline.com](http://www.bpiexpressonline.com)