SOUND, RESPONSIBLE AND EFFECTIVE

At BPI, we believe that our strength, growth and banking leadership are founded on a sound, responsible and effective corporate governance. Our policies and standards comply with applicable laws and regulations, and are regularly reviewed and updated to conform to changes in the regulatory environment. We pursue best practices in risk management across all our businesses to ensure integrity in everything we do.

We use the standards of the BSP Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity and Sensitivity to Market Risk (CAMELS) rating and the Corporate Governance Scorecard prescribed by the Institute of Corporate Directors (ICD) to measure our governance quality. In 2013, we were bestowed Asia's Most Outstanding Company on Corporate Governance (Philippines) by Corporate Governance Asia.

Board of Directors

Our Board of Directors (Board), the highest governance body of the Bank, ensures that a strong and effective governance system is in place throughout the entire organization. The Board is responsible for the long-term success of the Bank for the benefit of all our stakeholders. Its directive includes setting strategic business directions, appointing senior executive officers, confirming the appropriate organizational structures, approving major strategies and policies, overseeing major risk-taking activities, monitoring business and management performance, and generating a reasonable investment return to shareholders.

Composition: 14 directors, five of whom are Independent Directors, or those who have no interest or relationship with BPI at the time of election or appointment and/or re-election. Thirteen of these 14 directors are non-executive officers of the Bank.

Qualification: They are highly qualified business professionals with a broad range of experience and expertise required in the governance of a financial institution.

Selection: They are elected by BPI stockholders who are entitled to one vote per share at the Annual Stockholders' Meeting.

Compensation/Incentive Structure:
The Bank's By-Laws provide that "Each director shall be entitled to receive from the Bank, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of directors exceed one percent (1%) of the net income before income tax of the Bank during the preceding year."

Structure of Compensation Packages: The directors receive per diems for attendance in meetings of the entire Board or of Board Committees. The per diem amount is set and approved by a resolution of the Board. Historically, it is a fraction of one percent (1%) of the total net income of the Bank. Bonuses may be given as approved by stockholders during the Annual Stockholders' Meeting, upon recommendation of the Personnel Committee.

This compensation structure is the same as last year's.

Note: Executive Directors receive remuneration as Officers and not as Directors of the Company.

Board committees and memberships

The Board carries out its various responsibilities through the Executive Committee and delegates specific responsibilities to other committees that focus on certain areas as allowed by law. The different committees of the Board are:

Executive Committee. This committee shall, in the interim between meetings of the Board, possess and exercise all the powers of the Board in the management and direction of the affairs of the Bank subject to the provisions of the BPI By-Laws and the limitations of the law. It approves all major policies and oversees all major risk-taking activities. It functions as the Board's committee for the approval of all major credit risks.

COMPOSITION OF THE EXECUTIVE COMMITTEE

Chairman	Jaime Augusto Zobel de Ayala
Vice Chairman	Fernando Zobel de Ayala
Members	Cezar P. Consing, President and CEO
	Rebecca G. Fernando
	Aurelio R. Montinola III
	Antonio Jose U. Periquet (Independent)
	Chng Sok Hui*
Alternate Member	Mercedita S. Nolledo (for Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala)

Corporate Governance Committee. This committee assists the Board in fulfilling its corporate governance responsibilities, and ensures the Board's effectiveness and due observance of sound corporate governance principles and guidelines.

COMPOSITION OF THE CORPORATE GOVERNANCE COMMITTEE

Chairman	Artemio V. Panganiban (Independent)
Members	Romeo L. Bernardo (Independent)
	Solomon M. Hermosura
	Mercedita S. Nolledo
	Oscar S. Reyes
	Chng Sok Hui*

Nominations Committee. This committee ensures that the Board of Directors is made up of individuals of proven integrity and competence, and that each Director possesses the ability and the resolve to effectively oversee the Bank. This committee also reviews and evaluates the qualifications of all persons nominated to positions in the Bank requiring the appointment of the Board.

*Resigned effective November 28, 2013

COMPOSITION OF THE NOMINATIONS COMMITTEE

Chairman	Romeo L. Bernardo (Independent)
Members	Solomon M. Hermosura
	Xavier P. Loinaz (Independent)
	Jaime Augusto Zobel de Ayala
	Chng Sok Hui*

Audit Committee. This committee monitors and evaluates the adequacy and effectiveness of the BPI Group's internal control system. It also provides oversight of the overall management of operating risks, financial reporting and control, internal audit and external auditors, quality of compliance with the Corporate Governance Manual, and reviews conducted by the BSP.

COMPOSITION OF THE AUDIT COMMITTEE

Chairman	Xavier P. Loinaz (Independent)
Members	Octavio V. Espiritu (Independent)
	Aurelio R. Montinola III
	Oscar S. Reyes
	Khoo Teng Cheong*

Risk Management Committee. This committee is tasked with nurturing a culture of risk management across the enterprise, proposing guidelines and regularly reviewing risk management structures, limits, issues and measurements across the BPI Group, in order to meet and comply with regulatory and international standards on risk measurement and management. It also supports technology and training for key personnel in risk management.

COMPOSITION OF THE RISK MANAGEMENT COMMITTEE

Chairman	Octavio V. Espiritu (Independent)
Members	Cezar P. Consing
	Romeo L. Bernardo (Independent)
	Aurelio R. Montinola III
	Antonio Jose U. Periquet (Independent)
	Khoo Teng Cheong*

Trust Committee. This committee oversees the proper administration and management of the Bank's trust and other fiduciary business and its investment activities to ensure effective management of all risks inherent in the business.

COMPOSITION OF THE TRUST COMMITTEE

Chairman	Mercedita S. Nolledo
Vice Chairman	Antonio Jose U. Periquet (Independent)
Members	Cezar P. Consing
	Romeo L. Bernardo (Independent)
	Rebecca G. Fernando
	Fernando Zobel de Ayala
	Maria Theresa M. Javier, Trust Officer

Personnel and Compensation Committee. This committee directs and ensures the development and implementation of long-term Human Resources Strategy/Plan based on the Board's vision of the organization.

COMPOSITION OF THE PERSONNEL AND COMPENSATION COMMITTEE

Chairman	Fernando Zobel de Ayala
Members	Romeo L. Bernardo (Independent)
	Aurelio R. Montinola III
	Oscar S. Reyes
	Chng Sok Hui*

Retirement/Pension Committee. This committee oversees the investment portfolio and fiduciary, administrative and other non-investment aspects of the Retirement Plan.

COMPOSITION OF THE RETIREMENT/PENSION COMMITTEE

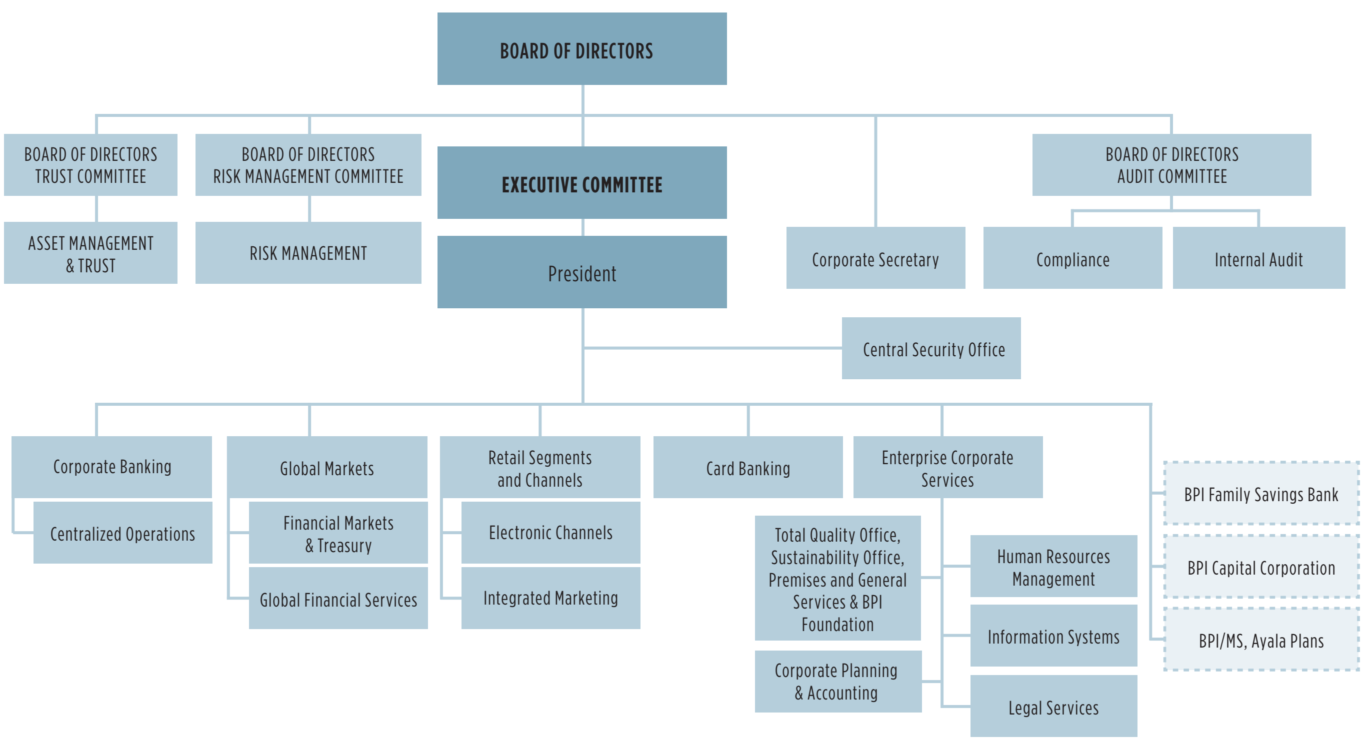
Chairman	Mercedita S. Nolledo
Members	Cezar P. Consing
	Rebecca G. Fernando
	Fidelina A. Corcuera, Human Resources Officer

*Resigned effective November 28, 2013

Operating management

The President and Chief Executive Officer is responsible for the overall management of the Bank and the implementation of all major business strategies. The Bank's major businesses—Retail Segments and Channels, Corporate Banking, Global Markets, Card Banking and Asset Management and Trust—are revenue-generating and are responsible for serving a segment of the Bank's customer base.

In additin, the Bank's Enterprise Corporate Services is responsible for its infrastructure, ensuring service delivery levels and discipline with respect to operational and capital expenditures.
The following is an overview of the functional organizational structure of the Bank and its principal activities:



Through a formal planning and budgeting process, management is able to pursue business goals and implement strategies. It lays down well-defined operating policies and procedures, and ensures the accuracy of reports to protect the Bank's integrity, promote fairness and transparency, efficiency, and accountability in the conduct of our business, and ultimately, to attain customer satisfaction. The Bank's management is periodically reviewed and rewarded according to their performance relative to assigned targets.

Specific management committees ensure that major risks are identified, measured, and controlled against set internal standards and/or limits. These management committees include the Credit Committee (Crecom), Asset and Liability Committee (ALCO), Capital Management Committee (CMC), Operational Risk Management Committee (ORMC), and Information Technology Steering Committee (ITSC).

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

Risk management

We have a comprehensive and integrated Risk Management and Capital Management Framework guiding the management of all our risk exposures; it also ensures that the Bank has adequate capital to cover and mitigate these risks. This Framework follows BSP regulations and directives to implement an active and effective Internal Capital Adequacy Assessment Process (ICAAP) and risk management processes within the Bank.

The Board of Directors carries out its risk management function through the Risk Management Committee (RMC). Several committees and units manage our financial and non-financial risk exposures at the management level. The Risk Management Office recommends risk management policies and methodologies, closely coordinates and facilitates risk management best practices with the various business units of the Bank, and in the process, promotes an enterprise-wide risk appreciation and education.

Major risks identified in the Bank's business are credit risk, market risk (liquidity risk and interest rate risk) and operational risk (people and process risks, information technology and physical security risks, compliance and regulatory risks, legal risk, and reputation risk, among others). Due to the significant size of our loan portfolio and financial assets, we give due attention to credit, market, and operational risk management.

Financial risk management is carried out by our dedicated and skilled team of risk managers who regularly monitor and report risk exposures against carefully established credit risk and market risk limits and metrics approved by the RMC. We also closely monitor our operational risks due to the continuous developments in our business processes, information systems and technology, as well as their relatively significant share in our total risk-weighted assets.

Credit risk. The Credit Policy and Risk Management (CPRM) division is responsible for the overall management of the Bank's credit risk, anchored on a comprehensive set of policies and prudent loan underwriting processes.

CPRM ensures that credit risks taken are consistent with acceptable parameters while ensuring compliance with regulatory requirements, in support of the Bank's sustained loan volume growth. In 2013, the Bank has generally complied with the regulatory and prudential requirements relating to credit risk management (e.g. DOSRI and SBL compliance, credit concentration risk, and mandatory lending to SMEs, among others).

We continue to maintain a diversified loan portfolio with no significant concentration in any sector. The top sectors with the largest exposure where risk was spread out among its sub-sectors were real estate (real estate exposure is within the BSP's 20% regulatory ceiling, exclusive of loans to individuals for housing purposes), manufacturing (with petroleum and food products at only about 5% each of the total portfolio), and wholesale and retail trade (also at about 5% each of the total portfolio, broken down into retail trade and wholesale and commission trade).

Our commercial loans accounted for about 78% of the total portfolio; consumer loans accounted for the balance of 22%. Large borrowers comprised approximately 83% of commercial loans, while SMEs accounted for the remaining 17%.

In 2013, CPRM reviewed 12 lending units and portfolios nationwide, with an overall generally acceptable credit performance and portfolio quality based on the credit reviews. Even with the continued expansion of our loan portfolios, asset quality has improved in terms of both non-performing loan (NPL) amounts and ratio. The gross 90-day NPL ratio stood at 1.8% and net 30-day NPL ratio at 0.49%, the lowest for the Bank in the last six years. NPL reserves cover also improved further in 2013 to 105%, from 96% in 2012. The BPI Group's loan exposure in areas affected by super-typhoon Yolanda in November last year has been minimal vis-à-vis its total loan portfolio.

We regularly monitor our credit risk scoring models as to their predictive power and overall model performance. Rating models for Corporates, Auto (Head Office Direct and Retail Marketing Loans), and Credit Cards maintained their acceptable performances in year 2013 based on statistical measures. The Retail Housing and Property Equity Loans credit risk scorecards and the SME internal credit risk rating model were significantly enhanced as part of the Bank's preparations to transition into the Basel II Internal Ratings-Based approach—probability of default (PD) estimates have been incorporated into these models. For consumer loans, a more comprehensive suite of data analytics and MIS for our credit cards, auto, and mortgage portfolios was continuously implemented, resulting in a proactive loan portfolio risk management.

On model risk management, our Risk Models Validation (RMV) division, the Bank's model risk manager, conducted independent model validation activities which focused on our credit risk models—credit risk scorecards for Retail Housing and credit cards, and PD models. The independent validation of a risk model is governed by the Bank's Model Risk Management Policy and Governance Framework, aimed at ensuring an active and effective model risk management in the BPI Group.

Other milestones achieved in 2013 include the automation of IRB-compliant CAR reports generation, as well as the development of new credit risk management systems to enhance the timely and accurate reporting of the Bank's loan portfolio, credit concentration and credit risk data analytics.

Market risk. The Market Risk Management (MRM) division measures and reports the Bank's exposure to market risk, liquidity risk, and interest rate risk in the banking book.

In 2013, the RMC reviewed risk measurements and established risk limits consistent with the Bank's balance sheet and profitability goals, objectives and overall risk appetite. In light of the major developments in the global and local financial markets in 2013, the RMC and management carefully and extensively considered the consequent impact of this market volatility on the Bank's profitability, resulting in key decisions and strategies to mitigate the potential adverse impact on earnings and shareholder value.

The measurement of our market risk exposure was improved through the adoption of the Historical Simulation methodology used for Value-at-Risk (VaR) calculation for all trading and derivative instruments and through the full implementation of an automated market risk system. Moreover, the Bank's market risk management processes were enhanced, policies and model documentation were continuously improved, and stronger risk controls were developed with the organization of a new Dealing Room Risk Management Team—all these are the primary components of an effective market risk management system.

Operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and management, or from external events. Our operational risk definition is comprehensive enough to include legal and tax risks, physical security risk, compliance and regulatory risk, and reputation risk.

We manage our operational risks through a framework that ensures such risks are properly identified, managed, monitored, mitigated and reported. Recognizing the importance of establishing a risk-aware culture in the management of operational risks, the Bank has embedded risk management in its core processes.

The Operational Risk Management Committee (ORMC) monitors the Bank's operational risks by reviewing key risk indicators (KRIs), risk and control self-assessments (RCSAs), and incident management. The ORMC is supported by the Operational Risk Management (ORM) division that oversees the implementation of our enterprise-wide operational risk management program, which encompasses policy formulation processes, KRI monitoring processes, RCSAs, incident management processes, and risk management awareness and appreciation programs.

Our RCSA includes scorecards and more business process-specific assessment templates. Online views for end-to-end risk assessment by products and channels have also been made available, and are updated whenever there are new or updated programs to be implemented. Each business unit undertakes regular risk self-assessment to identify, assess, and measure its operational risks. Key risk indicators are used to detect early warning signals, and these are monitored for appropriate management actions to prevent and mitigate actual losses. Operational risk losses and incidents are used as information for reporting and providing risk-profiling information to the Board, the Risk Management Committee, and senior management.

Product approval and project approval requirements have been established to ensure that the risks associated with the introduction of new products and services are identified, analyzed, and addressed prior to launch or prior to investing in new products and projects. For online products and services, precautionary measures are implemented to protect our customers' confidentiality and interests. Regular project value realization reviews are also conducted to assess effectiveness.

Our Information Security and Technology Risk Management team protects the Bank against operational risks arising from the use of information technology in our business processes. The team also ensures the confidentiality, integrity and availability of the Bank's information assets through the implementation of appropriate security controls and measures that protect against the misuse or compromise of information assets. New and appropriate security technologies are regularly identified, implemented and updated as part of our technology risk management strategy to mitigate threats to the Bank's information technology environment. It also promotes our competitiveness and long-term viability through the use of appropriate and cost-effective I.T. solutions. Our Systems Quality Assurance and Management (SQM) team ensures compliance of automated systems to information security polices and control standards.

To lessen the impact of unforeseen operational risk events and in the event of unplanned business interruptions, a Business Continuity Program (BCP) has been put in place to ensure the recovery and availability of critical customer service facilities. The Bank's Disaster Recovery Preparedness (DRP) has been enhanced with the installation of bigger and more robust BCP sites for critical head office services. Enterprise-wide testing of our critical application systems were conducted all throughout 2013. We also continued strengthening our employees' awareness of our Business Continuity Program through varied training and activities.

The Central Security Office (CSO) is responsible for the security of the Bank's facilities and the overall safety of our customers and employees. Its main objectives are the maximum protection of the Banks' personnel and property, close monitoring of incidents to enhance speedy response and extend appropriate assistance in the rescue of personnel in distress, if needed, and prevention of crime. The latter includes assisting law enforcement agencies in the apprehension and prosecution of crimes committed against the Bank. The CSO uses a three-tiered defense system—intelligence, target hardening and incident management—to achieve these objectives.

We continually adopt new and reliable security technologies like the deployment of the state-of-the-art Graphical Management System (GMS), which integrates all the Bank's alarms, access control and centralized closed-circuit TV (CCTV) systems. To date, all regular BPI and BFB branches have CCTVs installed and key branches are connected to the Central Video and Alarm Monitoring System (CVAMS). All cash centers are also connected to CVAMS and are monitored 24/7 through our centralized Security Operations Center (SOC).

The Bank's fraud risk and whistleblower programs help prevent and detect fraud or misconduct, and enable fast and coordinated incident responses, including establishing the cause of fraud, remedial actions, and damage control procedures.

The Legal Affairs and Dispute Resolution (LeADR) division oversees the Bank's legal and tax exposures. LeADR provides "pro-active, effective, timely and accessible" (PETA) opinions to address legal concerns in the Bank's daily operations and provide guidance in the legal aspects of new products, services or special projects. LeADR issues Legal Advisory Bulletins (LABs) that serve as ready reference for all employees of the BPI Group on the handling of legal issues, new laws and regulatory requirements. This division also issues Tax Advisory Bulletins (TABs), supplemented by the various tax briefings held for the BPI Group, aimed at promoting tax compliance awareness and a deeper understanding of the different BIR regulations and circulars. As part of its support service, LeADR provides training, conducts lectures, and provides legal documentation and advisory services. Collaborative risk assessment exercises on potential or ongoing litigation issues by our team of experienced lawyers were also institutionalized. To expedite the resolution of legal cases, LeADR pursues both reasonable compromise and aggressive litigation techniques, as and when necessary.

LeADR adheres to the pursuit of excellence and the observance of professionalism in all its activities, guided by the spirit of collaboration, imbued with honesty, integrity, and mutual respect. By extending legal services and advisory to the different units of the Bank in an optimal and timely fashion, LeADR promotes the Bank's objectives and protects its interests.

An operational risk management training and awareness program, which includes risk appreciation courses, is available in the Bank's eLearning platform, facilitating the promotion of an effective risk management culture within the BPI Group.

Management of risk exposure

The Bank uses various methodologies to measure its risk exposure. Our credit risk exposures take into account our existing exposure to the counterparty (by asset class), the counterparty's probability

of default, and the value recoverable from the counterparty in the event of default.
The credit risk rating and probability of default models were developed internally by our Credit Policy and Risk Management team using statistical methods on quantitative and qualitative risk factors, including credit judgment overlays (for borrower-specific and other factors that cannot be modeled statistically). The models are independently validated, and their predictive power and performance are regularly monitored.

Credit risk exposures are classified and managed according to rating grades. Each rating grade has a corresponding probability of default that exponentially increases as one moves from the best to the worst rating grade. The migration of accounts between rating grades is regularly monitored and analyzed. Loss provisioning also takes into account the rating grade of each exposure. While specific reserves are set up for defaulted exposures, provisioning for non-default exposures is based on expected loss (EL), which is a function of the probability of default and loss given default (standardized approach). Expected losses are constantly assessed and measured following our internal policies and the BSP regulatory provisioning policies.

In compliance with Basel and BSP standards on minimum capital requirement, our CAR calculation is computed based on qualifying capital and risk-weighted assets. We also measure the Bank's credit risk exposures in terms of regulatory capital requirement using the standardized approach. Using this method, our credit exposures to sovereigns, corporates and banks are risk-weighted to reflect external credit assessment from eligible ratings agencies, i.e. PhilRatings, S&P, Moody's and Fitch, were applicable. This method also allows the use of eligible collaterals, i.e. cash, financial instruments and guarantees to mitigate credit risk. The Bank ensures all documentation used in the collateralized transactions and guarantees are binding on all parties and legally enforceable in the relevant jurisdiction.

Using the Basel II regulatory standardized approach, our total credit risk-weighted assets amounted to Php 619.8 billion, and are composed of on-book credit exposures after risk mitigation at Php 612.2 billion net of specific provisions, off-balance sheet risk-weighted assets at Php 6.5 billion and counterparty risk-weighted assets in the trading book of Php 2.3 billion. Below is the summary table in million pesos.

CREDIT RISK-WEIGHTED ASSETS (In Php millions)	AMOUNT
Credit Risk-Weighted Assets	
Total Risk Weighted On-Balance Sheet Assets	612,242.38
Total Risk Weighted Off-Balance Sheet Assets	6,474.53
Total Counterparty Risk-Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions)	2,312.16
Total Gross Risk-Weighted Assets	621,029.07
Deductions: General loan loss provision (in excess of the amount permitted to be included in Upper Tier 2)	(1,235.53)
TOTAL CREDIT RISK-WEIGHTED ASSETS	619,793.54

The Bank's credit risk exposures on both on- and off-balance sheet assets after mitigation, broken down by risk buckets, for the years ended December 31, 2013 and December 31, 2012 are as follows:

SCHEDULE A
December 31, 2013

ON-BALANCE SHEET ASSETS (In Php millions)	Total Credit Risk Exposure after Risk Mitigation	Risk Weights						Total Credit Risk-Weighted Assets
		0%	20%	50%	75%	100%	150%	
Cash on hand	25,501.9	25,501.9						25,501.9
Checks and other cash items	218.7		218.7					218.7
Due from Bangko Sentral ng Pilipinas (BSP)	244,546.8	244,546.8						244,546.8
Due from other banks	15,802.9		5,022.1	8,576.6		2,204.2		15,802.9
Available-for-sale (AFS) financial assets	89,960.4	68,045.2	5,416.2	10,015.4		5,385.4		88,862.2
Held-to-maturity (HTM) financial assets	95,701.9	68,236.9	73.3	16,203.9		2,267.1		86,781.2
Unquoted debt securities classified as loans	431.3						431.3	431.3
Loans and receivables	608,002.6	4.3	37,267.9	36,829.6	41,192.0	487,112.5	5,596.3	608,002.6
Loans and receivables arising from repurchase agreements, certificates of assignment/ participation with recourse, and securities lending and borrowing transactions	11,518.1	11,518.1						11,518.1
Sales contract receivables (SCR)	78.0					66.6	11.4	78.0
Real and other properties acquired	5,225.2						5,225.2	5,225.2
Total exposures excluding other assets	1,096,987.8	417,853.3	47,998.1	71,625.4	41,192.0	497,035.9	11,264.2	1,086,969.0
Other assets	21,152.5					21,152.5		21,152.5
Total exposures, including other assets	1,118,140.2	417,853.3	47,998.1	71,625.4	41,192.0	518,188.3	11,264.2	1,108,121.4
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants			9,599.6	35,812.7	30,894.0	518,188.3	16,896.4	611,391.1
Total risk-weighted on-balance sheet								
Assets covered by credit risk mitigants			270.8	467.3		113.2		851.3
TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS			**9,870.4**	**36,280.0**	**30,894.0**	**518,301.5**	**16,896.4**	**612,242.4**

December 31, 2012

ON-BALANCE SHEET ASSETS (In million Php)	Total Credit Risk Exposure after Risk Mitigation	Risk Weights						Total Credit Risk Weighted Assets
		0%	20%	50%	75%	100%	150%	
Cash on hand	22,949.7	22,949.7						22,949.7
Checks and other cash items	860.9		860.9					860.9
Due from BSP	119,086.5	119,086.5						119,086.5
Due from other banks	6,914.8		2,708.2	2,315.0		1,891.6		6,914.8
Available-for-sale (AFS) financial assets	104,131.9	67,531.6	7,343.2	9,148.6		16,140.1		100,163.4
Held-to-maturity (HFM) financial assets	76,245.7	50,114.1	261.6	530.9		14,394.1		65,300.7
Unquoted debt securities classified as loans	698.0						698.0	698.0
Loans and receivables	492,843.2	3.7	21,937.5	26,114.4	61,643.0	378,492.4	4,652.1	492,843.2
Loans and receivables arising from repurchase agreements, certificates of assignment/ participation with recourse, and securities lending and borrowing transactions	38,137.6	38,137.6						38,137.6
Sales contracts receivables (SCR)	698.2					654.6	43.6	698.2
Real and other properties acquired	7,140.7						7,140.7	7,140.7
Total exposures excluding other assets	869,707.3	297,823.1	33,111.4	38,108.9	61,643.0	411,572.8	12,534.5	854,793.8
Other assets	26,850.8					26,850.8		26,850.8
Total exposures, including other assets	896,558.1	297,823.1	33,111.4	38,108.9	61,643.0	438,423.6	12,534.5	881,644.6
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants			6,622.3	19,054.5	46,232.2	438,423.6	18,801.7	529,134.4
Total risk-weighted on-balance sheet assets covered by credit risk mitigants			349.4	5.0		106.0		460.5
TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS		**-**	**6,971.7**	**19,059.5**	**46,232.2**	**438,529.7**	**18,801.7**	**529,594.9**

Schedule B
December 31, 2013

OFF-BALANCE SHEET ASSETS (In million Php)	Credit Equivalent Amount	Risk Weights						Total Risk-Weighted Off-Balance Sheet
		0%	20%	50%	75%	100%	150%	
Direct credit substitutes (e.g. general guarantees of indebtedness and acceptances)	3,527.2	-	-	-	692.8	2,603.5	-	3,296.3
Transaction-related contingencies (e.g. performance bonds, bid bonds, warranties and stand-by LCs related to particular transactions)	1,667.4	-	-	-	61.3	1,585.7	-	1,647.0
Trade-related contingencies arising from movement of goods (e.g. documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one (1) year	1,553.3	-	0.7	-	57.7	1,472.9	-	1,531.3
TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ASSETS		**-**	**0.7**	**-**	**811.7**	**5,662.1**	**-**	**6,474.5**

December 31, 2012

OFF-BALANCE SHEET ASSETS (In million Php)	Credit Equivalent Amount	Risk Weights						Total Risk-Weighted Off-Balance Sheet
		0%	20%	50%	75%	100%	150%	
Direct credit substitutes (e.g. general guarantees of indebtedness and acceptances)	3,746.6	-	-	-	1,039.8	2,360.2	-	3,400.0
Transaction-related contingencies (e.g. performance bonds, bid bonds, warranties and stand-by LCs related to particular transactions)	1,026.6	-	-	-	48.3	962.2	-	1,010.5
Trade-related contingencies arising from movement of goods (e.g. documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one (1) year	1,804.6	-	-	-	104.7	1,665.0	-	1,769.7
TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ASSETS		**-**	**-**	**-**	**1,192.8**	**4,987.4**	**-**	**6,180.2**

SCHEDULE C
December 31, 2013

COUNTERPARTY ASSETS IN THE TRADING BOOKS (In Php millions)	Credit Equivalent Amount	Risk Weights					Total Counterparty Risk-Weighted Assets in the Trading Book
		0%	20%	50%	100%	150%	
Derivative Exposures							
Interest Rate Contracts	364.0	-	23.2	123.3	1.3	-	147.8
Exchange Rate Contracts	3,523.9	-	50.0	1,181.8	910.4	-	2,142.2
Credit Derivatives	44.4	-	73.2	22.2			22.2
TOTAL COUNTERPARTY RISK-WEIGHTED ASSETS OF DERIVATIVE TRANSACTIONS		-		1,327.3	911.6	-	2,312.2

December 31, 2012

COUNTERPARTY ASSETS IN THE TRADING BOOKS (In Php millions)	Credit Equivalent Amount	Risk Weights					Total Counterparty Risk-Weighted Assets in the Trading Book
		0%	20%	50%	100%	150%	
Derivative Exposures							
Interest Rate Contracts	360.2		24.3	119.3		-	143.6
Exchange Rate Contracts	4,948.9		117.4	1,157.4	1,765.7	-	3,040.5
TOTAL COUNTERPARTY RISK-WEIGHTED ASSETS OF DERIVATIVE TRANSACTIONS		-	141.7	1,276.7	1,765.7	-	3,184.1

Our total outstanding investments in structured products as of end-2013 amounted to Usd 213 million, composed of investments in Credit-Linked Notes (CLNs) at 56.0% of total structured products; Range Accrual and Callable Range Accrual Notes at 28.0%; and Capped Floaters and Gold-Linked notes at 13.0% and 2.0%, respectively. The Bank's exposure on selling credit protection is limited to investments in CLNs.

We manage the market risk exposures of both our trading and non-trading portfolios. Our assets in both on- and off-balance sheet trading portfolios are subject to trading gains and losses. Market risk exposure from these portfolios is measured by the respective VaR models also as part of market risk management. The bank undertakes hedging strategies to mitigate the risks arising from various investments of the Bank. For example, it enters into interest rate swaps too much the interest rate risk associated with long-term debt securities In terms of capital usage using the standardized approach, total market risk-weighted assets stood at Php 8.5 billion by end-2013, of which foreign exchange exposure accounted for more than half, followed by interest rate exposures and equity exposure at 37% and 7%, respectively. The table below presents the breakdown of the MRWA, in Php millions:

MARKET RISK-WEIGHTED ASSET	TOTAL MARKET RISK-WEIGHTED ASSETS
Using Standardized Approach:	
Interest Rate Exposures	3,194.45
Equity Exposures	564.94
Foreign Exposures	4,765.95
TOTAL MARKET RISK-WEIGHTED ASSETS	**8,525.34**

Our liquidity risk is observed and monitored through the metric Minimum Cumulative Liquidity Gap (MCLG), which is computed monthly and measures net inflow level of the BPI Group (BPI, on a consolidated basis, should be liquid enough to provide sufficient buffer for critical liquidity situations). A red flag is raised should the MCLG projected for the next quarter breaches the RMC-prescribed MCLG limit. Interest rate risk measurement is fundamental to our banking business. Movements in interest rates can expose the Bank to adverse shifts in the level of net interest income and can impair the underlying values of its assets and liabilities. The BPI Group is exposed to interest rate risk on unfavorable changes in the rate curves, which would have adverse effects on the Group's earnings and its economic value of equity.

Interest rate risk exposure arising from the core banking activities is measured and monitored monthly by Earnings-at-Risk (EaR), or the potential deterioration in net interest income over the next 12 months due to adverse movements in interest rates; and by Balance Sheet Value-at-Risk (BSVaR), or the impact on the economic value of the future cash flows in the banking book due to changes in interest rates. As of end-December 2013, the BPI Group's BSVaR level of Php 2.0 billion and EaR of Php 1.2 billion were well within the Bank's established risk appetite. Our interest rate gap model is measured based on the repricing maturity of the balance sheet accounts. To illustrate, loans are mapped on either the maturity date (for accounts paying fixed interest rate) or next interest rate review date (for accounts paying floating interest rate). Meanwhile, repricing schedules of deposit accounts that do not have defined maturity dates (e.g. savings and current accounts) are based on the pattern of the Bank's historical review of deposit rates and the depositors' behavior. These assumptions were the same ones used last year.

Our exposure to operational risks are identified, assessed, and monitored as an integral part of the BPI Group's business processes. We currently use the Basel II regulatory basic indicator approach (BIA) to quantify the operational risk-weighted assets, using the historical total annual gross income as the main measure of risk. For the year 2013, the Bank's total operational risk-weighted assets (ORWA) stood at Php 77.2 billion.

The table below shows the estimated risk-weighted assets distribution for our operational risks based on the key operational risk events, exposures, and estimated losses for the year 2013:

OPERATIONAL RISK EVENTS	PERCENT TO BPI's TOTAL ESTIMATED LOSSES FOR 2013	ESTIMATE TO OPERATIONAL RISK-WEIGHTED ASSETS (ORWA) FOR 2013 (IN Php MILLIONS)
Fraud – Internal/External	32%	24,575
Process Failures	24%	18,958
Legal and Tax Cases	22%	16,852
Damage to Physical Assets	13%	9,831
Technology/Information Security	7%	5,617
Customer Complaints	2%	1,404
TOTAL	**100%**	**77,237**[a]

[a] Total Operational Risk-Weighted Assets (ORWA) as of 31 December 2013

Capital adequacy

The Capital Management Committee (CMC) oversees the strategic allocation of the Bank's capital and risk assets. It also ensures compliance with the regulatory capital adequacy ratio (CAR) and internal minimum CAR (IMCAR). In compliance with the regulatory directive for banks to conduct an Internal Capital Adequacy Assessment Process (ICAAP) following Basel II-Pillar II guidelines, the Bank submitted its 2014 ICAAP to the BSP on January 30, 2014. This comprehensive evaluation process of the Bank's material risks and capital adequacy reflected an IMCAR of 10.65% that is commensurate to the nature and extent for most of the risks the Bank has taken. The capital buffer of 0.65% over the 10.0% regulatory CAR was set to cover exposure beyond Pillar I risks.

For internal monitoring purposes, the RMC approved a CAR Management Action Trigger (CARMAT) of 11.5% at which management would review the capital level and undertake specific actions to build capital, as necessary.

As of December 31, 2013, BPI's solo (parent) and consolidated risk-based CAR stood at 13.7% and 12.2% respectively, well within the regulatory requirement of 10.0%, and above the Bank's set IMCAR and CARMAT. The table below sets out the Bank's CAR components for the years ended December 31, 2013 and December 31, 2012:

Risk	Amount (Php Billion)	
	2013	2012
Adjusted Tier 1	92.0	81.7
Adjusted Tier 2	4.6	8.9
Total Qualifying Capital	**96.7**	**90.7**
Total Credit risk-weighted assets	619.8	539.0
Total Market risk-weighted assets	8.5	29.3
Total Operational risk-weighted assets	77.2	70.7
Total risk-weighted assets	**705.6**	**638.9**
Consolidated CAR (%)	**13.70**	**14.19**
Solo (Parent) CAR (%)	**12.15**	**12.58**

The Bank's total qualifying capital of Php 96.7 billion and Php 90.7 billion for 2013 and 2012, respectively, were more than the regulatory CAR's aggregate and per risk category capital requirements as follows:

Risk (in Billion Php)	Regulatory Capital	
	2013	2012
Credit Risk	62.0	53.9
Market Risk	0.9	2.9
Operational Risk	7.7	7.1
Total	**70.6**	**63.9**

The Bank's total qualifying capital for 2013 and 2012 were largely composed of Tier 1 at 95.2% and 90.2% respectively. Below is the composition of the Bank's qualifying capital:

December 31, 2013			
Nature of Item	Amount (Php Million)		
	Tier 1	Tier 2	Total
Gross Qualifying Capital*	**93,616.32**	**6,257.04**	**99,873.37**
Deductions from Tier 1 and Tier 2 Capital			
Investments in equity of unconsolidated subsidiary securities dealers/brokers, insurance companies, and non-financial allied undertakings, after deducting related goodwill	1,609.03	1,609.03	3,218.05
TOTAL QUALIFYING CAPITAL	92,007.30	4,648.02	96,655.32
% to Total	**95.2**	**4.8**	**100.0**

December 31, 2012			
Nature of Item	Amount (Php Million)		
	Tier 1	Tier 2	Total
Gross Qualifying Capital*	**83,124.95**	**10,284.70**	**93,409.65**
Deductions from Tier 1 and Tier 2 Capital			
Investments in equity of unconsolidated subsidiary securities dealers/brokers, insurance companies, and non-financial allied undertakings, after deducting related goodwill	1,377.65	1,377.65	2,755.29
TOTAL QUALIFYING CAPITAL	81,747.30	8,907.06	90,654.36
% to Total	**90.2**	**9.8**	**100.0**

*Total Gross Qualifying Capital Breakdown

December 31, 2013			
Nature of Item	Amount (Php Million)		
	Tier 1	Tier 2	Total
Core Capital			
Paid-up common stock	35,563.56		35,563.56
Additional paid-in capital	8,235.30		8,235.30
Retained earnings	41,715.78		41,715.78
Undivided profits	18,007.33		18,007.33
Cumulative foreign currency translation	(212.72)		(212.72)
Minority interest in subsidiary financial allied undertakings which are less than wholly owned (for consolidated basis)	133.48		133.48
Net unrealized gains on available-for-sale equity securities purchased (subject to a 55% discount)		46.75	46.75
General loan loss provision (limited to 1.00% of credit risk-weighted assets)		6,210.29	6,210.29
	103,442.74	**6,257.04**	**109,699.78**
Deductions			
Net unrealized losses on available-for-sale equity securities purchased	19.70		19.70
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI (net of specific provisions, if any), and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions, if any) referred to in Circular No. 560	1,929.60		1,929.60
Deferred income tax (net of allowance for impairment, if any)	7,877.12		7,877.12
	(9,826.42)		**(9,826.42)**
Gross Qualifying Capital	**93,616.32**	**6,257.04**	**99,873.37**

December 31, 2012			
Nature of Item	Amount (Php Million)		
	Tier 1	Tier 2	Total
Core Capital			
Paid-up common stock	35,562.26		35,562.26
Additional paid-in capital	8,236.38		8,236.38
Retained earnings	31,840.95		31,840.95
Undivided profits	16,276.75		16,276.75
Cumulative foreign currency translation	(445.52)		(445.52)
Minority interest in subsidiary financial allied undertakings which are less than wholly owned (for consolidated basis)	258.29		258.29
Net unrealized gains on available-for-sale equity securities purchased (subject to a 55% discount)		106.42	106.42
General loan loss provision (limited to 1.00% of credit risk-weighted assets)		5,178.29	5,178.29
Lower Tier 2			
Eligible Amount of Lower Tier 2 Capital (limited to 50% of Tier 1 Capital)		5,000.00	5,000.00
	91,729.12	**10,284.70**	**102,013.82**
Deductions			
Net unrealized losses on available-for-sale equity securities purchased	0.01		0.01
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI (net of specific provisions, if any), and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions, if any) referred to in Circular No. 560	1,961.28		1,961.28
Deferred income tax (net of allowance for impairment, if any)	6,640.36		6,640.36
Goodwill	2.52		2.52
	(8,604.17)		**(8,604.17)**
Gross Qualifying Capital	**83,124.95**	**10,284.70**	**93,409.65**

The Bank's consolidated and solo Tier 1 capital ratio likewise compared favorably with regulatory CAR, IMCAR and CARMAT at 13.0% and 12.2%, respectively. Last year's consolidated and solo Tier 1 capital ratio were at 12.8% and 12.6%, respectively.

In 2013, the Bank carried out the following initiatives in preparation for the adoption of Basel III requirements, as well as improve the Bank's risk and capital management process:

- Identified the transition and implementation plans to be able to meet the revised minimum capital requirement prescribed by Basel III (e.g. issuance of additional capital).
- Explored Basel III-based enhancements for the Bank's existing Basel System.
- Continuous development of Basel II IRB PD-based credit risk models. The Bank has completed its FIRB PD model for large corporate and PD-based behavioral scorecard for the retail housing segment, and is currently developing the corporate SME PD and LGD models.
- Continuous training of key officers of the Bank on Basel III principles and standards through internal and public seminars and briefings.

A more detailed discussion on capital adequacy can be found on Note 3.7 of the 2013 Audited Financial Statements.

Compliance system

The Compliance Office upholds compliance with relevant laws and regulations of the BSP, Securities and Exchange Commission (SEC), Philippine Deposit Insurance Corporation (PDIC), and other regulatory agencies. This is done through effective liaison and dialogue with the regulators, as well as the prompt dissemination, within the Bank, of new developments affecting our operations. It oversees the implementation of the compliance system throughout the organization. The compliance function is further strengthened by the formal designation of the major Group Compliance Coordinating Officers (GCCOs) who are responsible in coordinating the implementation of the compliance program within their respective business groups.

The Compliance Office promotes adherence and awareness to laws, rules and regulations by electronically posting these information in a compliance database. Our Compliance Office, Corporate Planning and Corporate Secretary jointly review our compliance to the Securities act, and the rules set forth by the SEC and the PSE.

The compliance to the Bank's Corporate Governance Manual, policies and code of conduct is enforced using a two-pronged approach: one, self-regulation within the work units; and two, audit reviews of the Compliance Office, Internal Audit, and the external auditors.

Internal audit

Internal Audit is an independent unit that reports directly to the Board through the Audit Committee. It supports the Audit Committee in fulfilling its oversight responsibilities by providing an independent, objective assessment of the Bank's risk management, internal controls, and governance processes. Internal Audit also works closely with the Risk Management Office, Compliance Office, external auditors and other oversight units for a comprehensive view of risks and compliance in the institution, and ensures that business units proactively manage risk and compliance exposures.

Internal Audit has an established quality assurance and improvement program to ensure that audit activities conform to the International Standards for the Professional Practice of Internal Auditing (Standards). Key components of the program include on-going quality assessments of audit processes and methodologies, an annual internal self-assessment and an external quality assurance review by qualified professionals once every five years as required under the Standards. The results of the external assessments by SGV & Co./Ernst and Young in 2008 and 2012, both with overall "Generally Conforms" rating, validated Internal Audit's conformity with professional standards and internal requirements.

Internal Audit ensures that each audit staff possesses and improves knowledge, skills and competencies through relevant training programs and seminars, as well as certifications with professional organizations in specialized areas.

Conflict-of-interest policies

The Bank has in place conflict-of-interest policies that place the interest of the Bank above and ahead of the personal interests of its directors and employees. These policies prohibit directors and employees from using their position of authority or rank to directly or indirectly derive personal gain or advantage.

Conflict of interest and whistleblower policies and guidelines are available in the Management and Operating Manual (MOM) and Personnel Policy Manual electronic databases for everyone's easy access and guidance. Policy updates and reminders are regularly communicated to all employees.

Anti-money laundering

The Anti-Money Laundering Unit (AMLU) is responsible for monitoring customers, accounts, transactions and counterparties in compliance with the Anti-Money Laundering Law and various government regulations. Our Anti-Money Laundering Program covers all companies under the BPI Group.

We continue to strengthen our efforts in preventing and combating financial crime. Our commitment to assist in the fight against money laundering, corruption and terrorist financing led to the increase in the manpower of our AMLU and investment in the latest AML monitoring and detection technology. An integrated approach in formulating the Bank's policies, procedures, education, training and systems has been pursued in not only to adhere to regulations but also to international best practices.

We constantly review our program to ensure compliance with the latest legislative and regulatory developments. The Bank's AML program outlines the policies and procedures on enforcing rules for enhanced customer due diligence, detection and countering acts of money laundering, as well as handling of suspicious transactions. AMLU's centralized AML risk management system captures all required customer and transactional information from our various legacy applications and analyzes these data for abnormal and suspicious transaction patterns. The AML system is regularly evaluated and enhanced to continually improve the conduct of due diligence and money laundering detection from customer onboarding, transaction processing and account monitoring. The Bank has designed a structured AML training program, which is conducted regularly to equip front-line and operations personnel on Know Your Customer (KYC) guidelines as well as money laundering detection and prevention procedures.

Related party transactions

In the normal course of business, the Bank transacts with related parties consisting of its subsidiaries and associates, and with its directors, officers, stockholders and related interests (DOSRI), including transactions with Ayala Corporation (AC) and its subsidiaries (Ayala Group). All transactions involving DOSRI are duly reported to the BSP. These transactions, such as loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of Bank premises, investment advisory/management, service arrangements and advances for operating expenses are made in normal banking activities, and have terms and conditions that are comparable to those offered to non-related parties or to similar transactions in the market. The BPI Group is committed to fully comply with the General Banking Act and BSP regulations concerning DOSRI loans.

A more detailed discussion on related party transactions can be found on Note 31 of the 2013 Audited Financial Statements.

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 requires management's explanation to the Board, were applicable.

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

More information on BPI's corporate governance philosophy, policies and practices may be found in our website, www.bpiexpressonline.com.