CORPORATE GOVERNANCE

G4-34, G4-45, G4-46, G4-47, G4-57, G4-EC DMA, G4-PR DMA

In 2016, a challenging banking landscape, rapid regulatory advances, and evolving customer needs and objectives continued to drive industry flux, spurring the development of not only new bank products and services, but a whole new way of serving the client and addressing the expectations of all our other stakeholders.

In BPI, this whole new way of serving the client and stakeholders is anchored on our aspiration to enable them to take full advantage of opportunities and expand their possibilities. This aspiration, in turn, is grounded on a solid foundation of good governance and prudent risk management.

Thus, in 2016, the Bank undertook measures to further strengthen our leadership and ensure stable and sustainable banking operations. Specifically, the year was marked by efforts to further improve our governance practices, with a focus on three essential principles: stewardship, board succession planning, and corporate culture.

Stewardship. A new Advisory Council to the Chairman was created following the Annual Stockholders Meeting in April. Composed of senior thought leaders, captains of industry and luminaries in their respective fields, the Advisory Council was formed to help broaden and expand the range of expertise, experience and collective wisdom already available to the Bank.

An essential part of the stewardship principle is collaboration with our regulators to promote social imperatives, in particular shared success and inclusive growth. In 2016, this became evident in our becoming the exclusive local equity partner of the CARD MRI Banking Group, benefitting more unbanked and underserved Filipinos. We also formed BPI Direct BanKo Inc., a Savings Bank, a merger between our BPI Direct Savings Bank and BPI BanKO, to further strengthen and widen our commitment to financial inclusion. These two developments would not have been possible without the regulators' recognition of BPI's integrity and accountability framework, affirming our long-term commitment to be the leading and most trusted provider of financial services to our clients, colleagues, business partners and all other stakeholders.

Board Succession Planning. Board membership was reinvigorated in 2016 with the election of two new directors, one of whom is an Independent Director. This was part of a regular evaluation of the Board's composition, not only to ensure an appropriate mix of skills and representation in the Board but also to keep the Board relevant and agile, able to provide guidance and direction in the face of future challenges and situations. In the same manner, Board-level committee memberships were also evaluated and calibrated to improve the committees' oversight and high-level engagement with management.

Corporate Culture. The Bank enhanced its corporate governance framework not only at the parent level but also group-wide, with the creation of Board and Board Committee Charters, Manual of Corporate Governance, Code of Conduct, Board performance evaluation process, among others, for the various subsidiaries and affiliates. Apart from promoting the Bank's core values and building a deeper culture of integrity, fairness and ethical conduct across the BPI Group, the enhanced framework goes beyond status quo compliance and anticipates future regulatory changes. This proved timely, with the issuance of the 2016 Code of Corporate Governance for Publicly Listed Companies by the Securities and Exchange Commission in the latter part of the year; the new code presses for even higher standards and levels of governance, applying the "Comply or Explain" mode of compliance prospectively.

In addition, our adoption of a rigorous benchmarking methodology based on the ASEAN Corporate Governance Scorecard has resulted in a strong balance of responsible direction-setting, a performance-driven culture, and disciplined risk-taking. This did not pass unnoticed, with BPI becoming one of the awardees of the inaugural Institutional Investors' Award for Corporate Governance at the FMAP Investors Forum in October 2016. An initiative of the Fund Managers Association of the Philippines, Institute of Corporate Directors, Trust Officers Association of the Philippines and Philippine Investment Funds Association, the award is given by institutional investors to listed companies based largely on the latter's ASEAN Corporate Governance Scorecard rating.

Our corporate governance practices are embodied in our Manual of Corporate Governance and the Annual Corporate Governance Report, which may be read in our website at https://www.bpiexpressonline.com under About Us/Governance.

LEADERSHIP

Advisory Council

This new body, organized following the annual stockholders meeting in April, was formed to expand the range of expertise, experience, and collective wisdom available to the Bank.

Board of Directors

The leadership and stewardship of the Board of Directors is one of the most important factors accounting for the Bank's long-term growth and success. In discharging their oversight responsibilities as guardians of the Bank's financial prudence and strength, the Board provides challenge, oversight, and advice to ensure that BPI continues to do the right things the right way, assuring its long-term sustainable success. Under the leadership of the Chairman, the Board creates the framework within which the Bank's executive team, headed by our President and Chief Executive Officer, steers the business. The Board sets the Bank's strategy and risk appetite, and approves capital and operating plans presented by management for sustainable achievement of strategic objectives.

Considering the Bank's role in the BPI group as parent and publicly listed company, the Board of Directors ensures that BPI maintains an effective, high-level risk management and oversight process across all companies in the group, with due consideration for the group's business and reputation, the materiality of financial and other risks inherent in the business, and the relative costs and benefits of implementing specific controls.

The Board also decides on all other important matters that pertain to the entire group, in view of their strategic, financial, regulatory and reputational implications.

Board Charter. The charter of the Board of Directors articulates with specificity the governance and oversight responsibilities exercised by the directors and their roles and functions in the Bank. It includes provisions on Board composition, Board Committees and board governance, subject to provisions of the corporation's Articles of Incorporation, By-Laws and applicable laws. The charter is not intended to limit, enlarge or change in any way the responsibilities of the Board as determined by such articles, by-laws and applicable laws.

The Board Charter is incorporated in our Manual of Corporate Governance, both of which are reviewed annually. The Bank's updated and revised Manual of Corporate Governance was approved and adopted by our Board of Directors in its entirety on December 14, 2016.

Composition and Qualification. Our 2016 Board consists of 15 Directors, 14 of whom are non-executive officers of the Bank; the only executive Director is the Bank's President and CEO. The size of our Board is deemed appropriate given the complexity of operations of the Bank and the entire BPI group, the geographical spread of our business, and the significant time demands placed on the Directors.

Our Board of Directors enjoys the trust and respect of the local and international business community. They are established professionals who provide perspective, objectivity, practical wisdom, and sound judgment in their oversight, recommendations and evaluation of bank operations and management.

As we are a financial institution imbued with public interest, qualifications for membership in our Board of Directors are dictated by our By-Laws and Manual of Corporate Governance, the Corporation Code, and relevant regulations issued by the Bangko Sentral and the SEC. As a publicly listed company, we also take special care to ensure that the Board's composition and the qualifications of our Directors meet the pertinent governance regulations, requirements, and standards of the PSE.

See Annex 2 for full biographies of our Board of Directors.

Diversity. Our Board embraces the benefits of diversity that creates and maintains an atmosphere of constructive challenge and debate, stemming from a balanced variety of skills, experience and perspectives among our Directors. The Board Diversity Policy, adopted in 2015, underscores diversity at the Board level as an essential element of sound corporate governance, sustainable and balanced development, and effective business strategy.

Diversity—in terms of gender, age, cultural background, education, professional experience, skills, knowledge, length of service, and other regulatory requirements—is duly considered in the design and selection of the Board's composition.

A third of our 2016 Board are women, two of whom are Independent Directors.

Our full Board Diversity Policy may be read in our website, www.bpiexpressonline.com, under About Us/Corporate Governance/Board Matters.

Independence. BPI's Board of Directors operates with significant independence from Bank management. In our 2016 Board, seven out of 15 directors are classified independent, or having no interest or relationship with BPI at time of election, appointment, or re-election. Fourteen of these Directors are non-executive Directors, that is, they not part of the day-to-day management of banking operations. Our Chairman is also a non-executive Director, and is separately appointed from our President and CEO.

BPI exceeds both the minimum regulatory requirement to have at least 20% but not less than two Independent Directors in its board and the recommended requirement for publicly listed companies to have at least one-third but not less than three Independent Directors on its board (2016 SEC Code of Corporate Governance for Publicly-Listed Companies, Recommendation 5.1). With seven Independent Directors in our 15-member Board, we are able to maintain fairness, integrity, and balance among public, corporate, and stakeholder interests.

Powers of the Board of Directors. The corporate powers of a bank shall be exercised, its business conducted and all its property controlled and held by its Board of Directors. The powers of the Board of Directors as conferred by law are original and cannot be revoked by the stockholders. The Directors hold their office, charged with the duty of exercising sound and objective judgment for the best interest of the Bank.

Duties and Responsibilities. The Board bears the primary responsibility for creating and enhancing the long-term shareholder value of BPI, and generating reasonable and sustainable returns on shareholder capital by, among others, reviewing and approving the Bank's mission, vision, strategies and objectives; appointing senior executives and confirming organizational structures; approving enterprise-wide policies and procedures; monitoring business and financial performance; overseeing risk management frameworks and risk appetite, and fostering regulatory compliance.

Selection. Our shareholders may recommend candidates for board membership for consideration by the Nominations Committee. Such recommendations are sent to the Committee through the Office of the Corporate Secretary. Candidates recommended by shareholders are evaluated in the same manner as Director candidates identified by any other means. The Committee itself may identify and recommend qualified individuals for nomination and election to the Board. For this purpose, the Committee may utilize professional search firms and other external groups to search for qualified candidates.

The Nominations Committee pre-screens the candidates and prepares a final list of candidates prior to the annual stockholders meeting. Only nominees whose names appear on the final list of candidates are eligible for election to the Board. No other nomination shall be entertained after the final list of candidates are drawn up. No nomination shall be entertained or allowed on the floor during the annual stockholders meeting.

Board members are elected by BPI stockholders who are entitled to one vote per share at the Bank's annual stockholders meeting. The nominees receiving the highest number of votes are declared elected and hold office for one year until their successors, qualified in accordance with the by-laws, are elected at the next annual stockholders meeting.

Induction and Director Education. Today's rapidly changing banking environment requires that our Directors be more engaged and skilled to cope with competitive pressure from both traditional financial intermediaries and disruptors, the growing complexity of products, services and transactions, and heightened foreign, local and regional regulatory demands. The Bank has created numerous opportunities for its Directors to update and refresh their knowledge, enabling them to fulfill their roles as members of the Board and its committees. These opportunities include internal meetings with senior executives and operational or functional heads, dedicated briefings on specific areas of responsibility within the business, and training programs provided by accredited or duly recognized institutions.

New Directors are briefed on BPI's background, organizational structure, and, in compliance with Bangko Sentral Circular No. 758, the general and specific duties and responsibilities of the Board. They also receive briefings on relevant policies and rules governing their roles as Directors. They are given an overview of the industry, regulatory environment, business of banking, and annual and medium-term strategic plans of the Bank. Briefings on current issues affecting BPI and the industry are also conducted; these issues include regulatory initiatives like the Anti-Money Laundering and Terrorist Financing Prevention Program, Foreign Account Tax Compliance Act, Securities Regulations Code, SEC memorandum circulars, and Bangko Sentral regulations, among others.

New Directors are also informed of the Bank's governance framework, its Manual of Corporate Governance and Code of Conduct, and Board operations (schedules, procedures and processes); they also enjoy support from the Corporate Secretary and senior management. The Bank's philosophy and vision, as well as the Board's culture and operating style, are also part of the new Directors' induction.

Through its various units, the Bank provides continuing director education in relation to relevant developments, such as FATCA, Basel III, and new Bangko Sentral, SEC, and BIR regulations. Other in-bank courses, also available to senior management, include seminars and online courses on anti-money laundering, business continuity management, conflict of interest, risk management overview, and information security awareness.

Board members also regularly attend governance fora, conferences, and summits organized by the Institute of Corporate Directors.

In 2016, all the members of our Board, including our Corporate Secretary, Chief Compliance Officer and senior officers, attended the requisite corporate governance seminars provided by SEC- and Bangko Sentral-accredited institutions.

Remuneration. Our remuneration decisions for the Board and management are aligned with risk incentives and support sustainable, long-term value creation. Apart from ensuring that Board and management pay appropriately reflects industry conditions and financial performance, the Bank likewise rebalances returns back to shareholders through a robust dividend policy.

Our Personnel and Compensation Committee recommends to the Board the fees and other compensation for Directors, ensuring that compensation fairly remunerates Directors for work required in a company of BPI's size and scope. As provided by our by-laws and pursuant to a Board resolution, each Director is entitled to receive fees and other compensation for his services as Director. The Board has 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 1% of the Bank's net income before income tax during the preceding year.

Board members receive per diems for each occasion of attendance at meetings of the Board or of a board committee. All fixed or variable remuneration paid to Board members may be given as approved by stockholders during the annual stockholders meeting, upon recommendation of the Personnel and Compensation Committee. Other than the usual per diem arrangement for Board and Board Committee meetings and the aforementioned compensation of Directors, there is no standard arrangement as regards compensation of Directors, directly or indirectly, for any other service provided by the Directors for the last completed fiscal year.

Board members with executive responsibilities within the BPI group are compensated as full-time officers of the company, not as non-executive Directors. This is consistent with our Human Resource Policy on offering a competitive compensation package, one that's aligned with bank-wide performance standards. Historically, total compensation paid to all Board members has been significantly less than the cap of 1% of the total net income stipulated by the Bank's by-laws.

In 2016, BPI's Board of Directors received a total of P72.41 million as fees and other compensation for the services rendered by them to the Bank for the same year. The compensation for all Directors in 2016 was equivalent to less than 1% of the net income of the Bank before tax.

Meetings and Attendance. The BPI Board meets regularly for the effective discharge of its obligations. Regular board meetings are convened monthly, held every third Wednesday of the month. Board of Directors meetings are set immediately after the annual stockholders meeting to cover the full term of the newly elected or re-elected members of the Board, reckoned from the date of the current year's annual stockholders meeting to that of the following year. Special meetings may be called for as needed. Discussions during the board meetings are open and independent views are given due consideration. Board reference materials are made available to the directors at least five days in advance of the scheduled meeting.

Independent and non-executive Directors of the Bank also meet at least once a year without the presence of any executive Director or management.

Because the role of a bank director is a demanding one, our Directors make significant time commitments, not only preparing for and attending Board and Board Committee meetings; they also commit time for initial induction, continuing education and training, and engagement with both the executive team and stakeholders as needed.

In April 2016, two new directors were elected to the Board. Average attendance of re-elected and newly-elected members of the Board at the Boards' 13 meetings was 94%. On those instances when a Director was unable to attend meetings due to prior commitments or unavoidable events, said Director provided input to the chairman so that his views were known and considered.

The Board's full-year attendance at the 2016 Board Meetings and Committee Meetings may be found in Annex 3.

Performance Evaluation and Self-Assessment. The Bank measures the performance of the Board on the basis of what it delivers and how it delivers, how it meets its responsibilities to all BPI stakeholders, and how it addresses issues that impact the Board's ability to effectively fulfill its fiduciary duties. The essential pre-conditions for a successful Board include an agreed perspective on what the Bank is trying to achieve, a culture of mutual trust and respect, shared values, transparency, accountability, honesty, and teamwork.

The self-assessments, conducted under the guidance of the Corporate Governance Committee, ascertain the alignment of leadership fundamentals and issues, and validate the Board's appreciation of its roles and responsibilities in the context of the operations of BPI and its subsidiaries and affiliates. These assessments also help to gain a broad-based understanding of the Board's most critical governance success factors.

We use a 360-degree feedback report, a widely advocated, standard evaluation method of self-assessment and feedback review, on performance at four levels: the Board as a body, Board Committees, individual Directors, and President and CEO. Key evaluation criteria are built on the Board's terms of reference and committee charters, and framed around broad leadership fundamentals and best practices.

The Corporate Governance Committee processes and tabulates the results of the self-assessments and communicates them to the Board. Areas for improvement are discussed by the Board, in order to agree on remedial actions. The Corporate Governance Committee may also develop recommendations and action plans for the Board, whenever necessary and desirable.

Succession Planning and Talent Management. Financial services today face many transformative factors—regulation, market disruption, new technologies and business models, competition—that affect the business in major and long-term ways. Our Board understands that the Bank must continually evolve, adapt, and even restructure the business to remain ahead of strategic, market, technology and regulatory shifts. The Bank, through its Personnel and Compensation Committee, manages the talent pipeline and assembles the required personnel capable of navigating such changes.

In consultation with the President and CEO, the Personnel and Compensation Committee reviews the Bank's talent development process for proper management. Senior management provides a report to this Committee on the results of its talent and performance review process for key management positions and other high-potential individuals. Aside from ensuring that there is a sufficient pool of qualified internal candidates to fill senior leadership positions, this review process identifies opportunities, performance gaps, and proactive measures in the Bank's executive succession planning. And as part of the same executive planning process, the Committee as a whole or a part thereof, in consultation with the Board and the President and CEO, evaluates and nominates potential successors to the President and the CEO.

Our succession planning has effectively ensured leadership continuity in the last two decades, witnessing three President and CEO changes, marked by early planning and mentoring, smooth organizational and operational transitioning, and prudent but progressive institutional building at BPI and across the BPI group. Our Board is likewise regularly refreshed in a continuing cycle for the Bank to remain relevant, agile, and anticipatory of future programs and directions.

Board Committees. To heighten the efficiency of board operations, the Board established committees that assist in exercising its authority for oversight of internal control, risk management, and performance monitoring of the Bank. The committees afford the Board organized and focused means for the Directors to achieve specific goals and address issues, including those related to governance. In particular, the committees enhance the objectivity and independence of the Board's judgment, insulating it from undue influence of management and major shareholders.

In 2016, the Bank had nine Board-level committees. As part of the annual Board effectiveness review, a separate exercise was conducted to assess the performance of each of the nine committees. The assessment found that all the committees performed effectively. Attendance of the members of our Board to the various committee meetings in 2016 are shown in Annex 3. The charters of all Board-level committees are found in our website, www.bpiexpressonline.com under About Us/Governance/Board Matters.

Executive Committee. The Executive Committee, between meetings of the Board, possesses and exercises all powers of the Board in the management and direction of the affairs of the Bank subject to the provisions of its by-laws, and the limitations of the law and other applicable regulations. It serves as the operating arm of the Board in all matters related to corporate governance. It approves all major policies and oversees all major risk-taking activities, including the approval of material credit exposure.

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) Mercedita S. Nolledo

Corporate Governance Committee. The Corporate Governance 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, as embodied in the Manual of Corporate Governance.

Chairman	Dolores B. Yuvienco (Independent)
Members	Romeo L. Bernardo (Independent) Mercedita S. Nolledo Ignacio R. Bunye (Independent) Astrid S. Tuminez (Independent)

Nominations Committee. The Nominations Committee ensures that the Board of Directors is made up of individuals of proven integrity and competence, and that each possesses the ability and resolve to effectively oversee the Bank in his capacity as board member and member in their respective board committee. This Committee also reviews and evaluates the qualifications of all persons nominated to the Board.

Chairman	Romeo L. Bernardo (Independent)
Members	Jaime Augusto Zobel de Ayala Fernando Zobel de Ayala Xavier P. Loinaz (Independent) Vivian Que Azcona

Audit Committee. The Audit Committee monitors and evaluates the adequacy and effectiveness of the Bank's system of internal control systems, risk management, and governance practices. It provides oversight on the integrity of the Bank's financial statements and financial reporting process, performance of the internal and external audit functions and compliance with bank policies, applicable laws, and regulatory requirements. This Committee also reviews the external auditor's annual audit plan and scope of work, and assesses its overall performance and effectiveness. In consultation with management, this Committee also approves the external auditor's terms of engagement and audit fees.

Chairman	Xavier P. Loinaz (Independent)
Members	Octavio V. Espiritu (Independent) Aurelio R. Montinola III Dolores B. Yuvienco (Independent)

Risk Management Committee. The Risk Management Committee is tasked with nurturing a culture of risk management across the enterprise. It supports the Board by overseeing and managing the Bank's exposures to financial and non-financial risks, assesses new and emerging risk issues across the Bank, regularly reviews the Bank's risk management appetite, policies, structures and metrics, and monitors overall liquidity and capital adequacy, in order to meet and comply with regulatory and international standards on risk measurement and management.

Chairman	Octavio V. Espiritu (Independent)
Members	Cezar P. Consing Romeo L. Bernardo (Independent) Aurelio R. Montinola III Astrid S. Tuminez (Independent)

Trust Committee. The Trust 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.

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

Personnel and Compensation Committee. The Personnel and Compensation Committee directs and ensures the development and implementation of long-term strategies and plans for the Bank's human resources, in alignment with the Board's vision for the organization.

Chairman	Fernando Zobel de Ayala
Members	Romeo L. Bernardo (Independent) Aurelio R. Montinola III Delfin C. Gonzalez, Jr. Vivian Que Azcona

Retirement and Pension Committee. The Retirement and Pension Committee oversees the fiduciary, administrative, investment portfolio, and other non-investment aspects of the Bank's retirement plan.

Chairman	Mercedita S. Nolledo
Members	Delfin C. Gonzalez, Jr. Rebecca G. Fernando

Related Party Transaction Committee. The Related Party Transaction Committee is charged with ensuring that the Bank's dealings with the public and various stakeholders are imbued with the highest standards of integrity. In conjunction with the Executive, Audit, Risk, and Corporate Governance Committees, this Committee endeavors to ensure compliance with Bangko Sentral regulations and guidelines on related party transactions. It independently reviews, vets, and endorses significant and material related party transactions—above and beyond transactions qualifying under directors, officers, shareholders, and related interests restrictions—such that these transactions are dealt on terms no less favorable to the bank than those generally available to an unaffiliated third party under the same or similar circumstances.

Chairman	Octavio V. Espiritu (Independent)
Members	Rebecca G. Fernando Romeo L. Bernardo (Independent) Rosemarie B. Cruz, Chief Audit Executive (Non-Voting) Marita Socorro D. Gayares, Chief Compliance Officer (Non-Voting)

OPERATING MANAGEMENT

Organization. BPI's President and CEO is responsible for formulating the business strategy and the overall management of the Bank in fulfilling objectives to achieve the desired outcomes of its strategy. Effective January 2016, the Bank has six senior executive officers, each responsible for an area of the Bank's business. They directly report to the President and CEO.

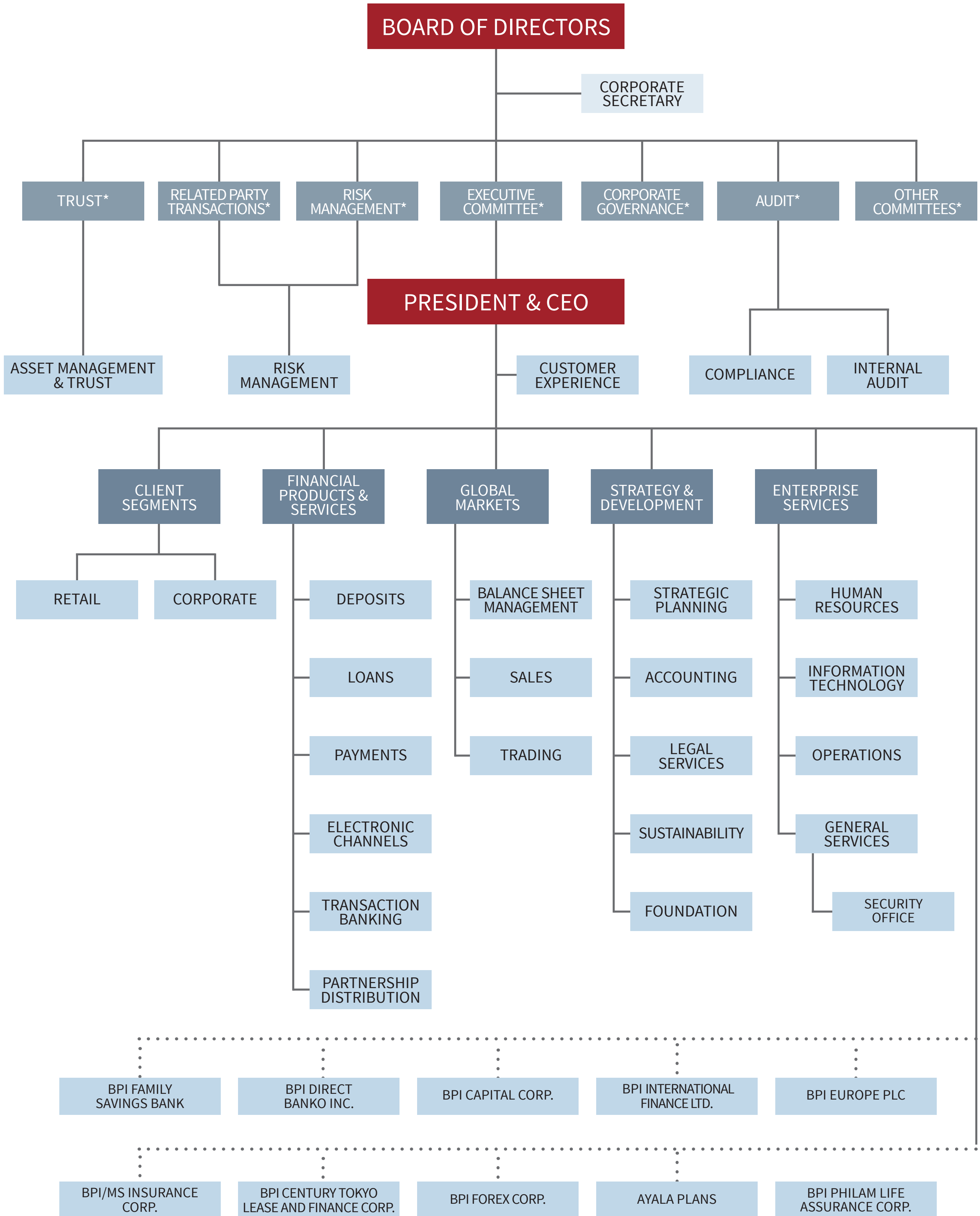
These senior executive officers are Natividad N. Alejo, President, BPI Family Savings Bank; Daniel Gabriel M. Montecillo, Executive Vice President and Head, Corporate Clients; Simon R. Paterno, Executive Vice President and Head, Financial Products and Services; Antonio V. Paner, Treasurer, Executive Vice President and Head, Global Markets; Ramon L. Jocson, Executive Vice President and Head, Enterprise Services; and Joseph Albert L. Gotuaco, Chief Financial Officer, Executive Vice President and Head, Strategy and Development.

The senior executive officers are responsible for ensuring development and expansion of BPI's client relationships; service quality and innovation in its products and services; management of the Bank's trading business including enterprise asset-liability management; reliability, productivity, and efficiency of our operating infrastructure; financial strategy formulation and execution; and sustainable investor and stakeholder relations.

In addition, the Bank has a Management Committee, which is occasionally convened to discuss matters of company-wide relevance. The Management Committee is appointed by the President and CEO, and its membership is periodically rotated, to reflect current initiatives of the Bank and to grant senior decision-making exposure to executives below the rank of EVP.

The following is an overview of the Bank's principal activities and its functional organization (as of December 31, 2016):

BPI TABLE OF ORGANIZATION



*Board-level committees. Other such committees are the Nominations, Personnel and Compensation, and Retirement and Pension committees.

Planning and Performance Management. The Bank articulates its strategy in periodic planning exercises, realizes plans in formal budgets, and conducts periodic performance reviews against both our budgets and our past performance. We act in accordance with well-defined operating policies and procedures, and ensure the accuracy and transparency of our operational and financial reporting to protect the Bank's reputation for integrity and fair dealing. We also strive to achieve accountability in our revenue performance, efficiency in our expenditure of resources, and high quality in the delivery of services and achievement of customer satisfaction. Our management is periodically reviewed and rewarded according to their performance relative to innovation, initiatives, assigned targets, and feedback from customers, peers, and the Board.

We place strong emphasis on prudent risk-taking and risk management. Specific management committees ensure that major risks are identified, measured, and controlled against established limits. These key management committees are the Credit Committees, Assets and Liabilities Committee, Operational and IT Risk Management Committee, Crisis Resilience Committee, Information Technology Steering Committee, Capital Expenditures Committee, Anti-Money Laundering Evaluation Committee, Fraud and Irregularities Committee, ROPA Sales Committee, and Management Vetting Committee. Members of these committees are senior officers (in the case of the Information Technology Steering Committee, a non-executive board member) who are subject matter experts in areas of knowledge relevant to the respective committees. They include client specialists, product specialists, senior officers of the Risk Management Office, and other senior executives.

RISK MANAGEMENT

Comprehensive Framework. The Bank pursues best practices in enterprise risk management across our businesses and processes. We espouse a comprehensive risk management and capital management framework, which integrates the identification and management of our risk exposures. We work to ensure that the Bank has adequate liquidity and capital at all times in order to mitigate risks. Our framework conforms not only with our own rigorous standards, but also with Bangko Sentral directives promoting an effective internal capital adequacy assessment process and other risk management processes. Our framework focuses on three key components: sound risk governance; effective processes, information systems, and controls; and timely and reliable data.

Risk management in BPI follows a top-down approach, with risk-appetite setting and overall risk strategy emanating from the Board of Directors. Our Board fulfills its risk management function through the Risk Management Committee. More junior committees and units within our organization manage more granular financial and non-financial exposures. We manage risk through clearly delineated functions, using the "three lines of defense" model, to ensure effective risk management governance and control processes across the Bank. Our risk culture is strongly anchored in our vision of transparency and integrity in the workplace, creation of sustainable value, and one that delivers maximum returns to shareholders. And in order to succeed in our mission of satisfying our responsibilities to our clients, employees, shareholders, and country, we exercise prudent risk management. Our Risk Management Office is headed by our Chief Risk Officer. The CRO is ultimately responsible for leading the formulation of risk management policies and methodologies in alignment with the strategy of the Bank, ensuring that risks are rationally undertaken, within the Bank's risk appetite and commensurate to returns on capital. Our risk appetite is a careful measure of the amount of risk the Bank is prepared to take, considering the financial objectives we want to attain. This is regularly reported to the Board through the Risk Management Committee.

We track risks according to three major classifications—*credit, market, and IT operational*. Credit risk arises from the Bank's core lending and investing business; market and liquidity risk arises from the Bank's business in managing interest rate and liquidity gaps, as well as in the trading and distribution of fixed income, foreign exchange, and derivative instruments (as allowed by regulation); and operational risk arises from the Bank's people, processes, information technology and systems. Inadequacies or failures in any of these elements, including threats from external events, pose risks of financial losses, which may also include damage to the Bank's reputation.

We have established *robust and effective risk management processes and controls* that allow us to manage risks closer to their source, either preventing them from happening or mitigating their impact. The Bank uses various methodologies, tools, and systems to measure its risk exposure. We invest in risk technology and business-enabling systems to ensure data quality and timely reporting.

Financial risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive operational experience working within our firm. Our risk managers regularly monitor key risk indicators, and report exposures against carefully established credit, market, and operational and IT risk metrics and limits approved by our Risk Management Committee.

We continuously promote a *culture of proactive risk management and client-centricity,* with the CRO and the Risk Management Office continuously engaging the RMC, management, and business units, communicating the risk awareness culture to the rest of the Bank through various internal channels, facilitating learning programs on risk management, and promoting best practices enterprise-wide.

Credit Risk. We have a Credit Policy and Risk Management unit responsible for the overall management of the Bank's credit risk. CPRM is accountable to the RMC in assisting to establish the Bank's risk appetite and in the RMC's oversight function on credit risk. In addition, the CPRM supports senior management in ensuring the quality of the Bank's loan portfolio by identifying, measuring, monitoring, reporting, and controlling credit risks. CPRM ensures that the Bank's *stringent underwriting standards and rating parameters* are met by the various lending units. In 2016, the Bank experienced significant growth in loan volumes but ably managed overall low credit risk and maintained asset quality, in general compliance with regulatory and prudential requirements relating to credit risk management (for example, DOSRI and RPT compliance, single borrower's limits, and credit concentration, among others).

We continue to maintain a *diversified loan portfolio with no significant concentrations*. Our top 20 group exposures generally remain within the internal single borrower's limit and operate in diversified industries. Our commercial loans account for about 80% of the total portfolio, consumer loans account for the balance of 20%. Large corporate borrowers comprised approximately 90% of commercial loans, while SMEs account for the remaining 10%.

Our corporate credit risk exposures are assessed individually using internal credit risk rating models that generate a probability of default per rating grade and take into account credit risk mitigants. Credit risk rating models are developed internally by our credit risk modeling team using statistical methods on quantitative and qualitative risk factors, including credit judgment overlays to account for borrower-specific and such other factors that cannot be modeled statistically. The credit risk ratings of corporate accounts are generally updated on an annual basis. For consumer loans, the Bank adopted credit risk scorecards to assess borrowers' creditworthiness. Both financial and non-financial variables were considered in the scorecard development process, and all scorecards were also subjected to expert judgment meetings with key business lending units. Our models are independently validated, and their predictive power and performance are regularly monitored to ensure they are qualitatively and statistically acceptable.

Regular reviews of the appropriateness of classifications and impairment rates of classified loan accounts are conducted for proper assessment of loan quality. Corporate exposures are classified and managed according to rating grades. Each rating grade has a corresponding probability of default that exponentially increases as a rated account 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 and reviewed regularly, provisioning for non-default exposures is based on incurred loss, which is a function of the probability of default and loss given default (under the Basel standardized approach). On the other hand, consumer loans are impaired through a portfolio approach methodology using historical flow-rates as basis for the impairment factors. The Bank has begun internal preparations, including model development and validation of PFRS 9-based expected credit loss impairment models, in time for the impending implementation of the standard effective January 1, 2018.

Credit reviews are regularly conducted to assess that the credit process—from loan origination, credit analysis, approval, implementation, and administration—conforms to the standards set in our internal policies and complies with regulatory requirements. In 2016, we reviewed 19 key lending units and portfolios nationwide, and these reviews revealed generally acceptable credit performance and portfolio qualities. As our loan portfolio grew, asset quality was generally maintained with the Bank's gross 90-day

NPL ratio at 1.46%, the lowest for the Bank in the last nine years, and net 30-day NPL ratio at 0.54%, measured in accordance with regulatory reporting standards. The Bank's 90-day NPL reserves cover improved in 2016 to 119% from 110% in 2015.

In compliance with Basel and Bangko Sentral standards on minimum capital requirements, we 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, corporate and banks are risk-weighted to reflect credit assessment from eligible ratings agencies (Fitch, Moody's, Standard & Poors, and PhilRatings, where applicable). This method also allows for the use of eligible collaterals (cash, financial instruments, and guarantees) to mitigate credit risk. We ensure all documentation used in collateralized or guaranteed transactions are binding on all parties and legally enforceable in the relevant jurisdiction.

Stress tests are regularly conducted on the Bank's loan portfolio to determine the impact of various economic scenarios, to surface any undue credit concentration risk and to comply with regulatory reporting. Results showed that our CAR and CET1 ratios will generally remain above or at about the regulatory capital requirements even with assumed write down scenarios on our large exposures, exposures by industry (including real estate), and consumer portfolios. Any shortfall is expected to be adequately covered by the Bank's realizable future income. *We undergo continuous cycles of improvement*, as part of our continuous enhancement of our credit policies and guidelines, as well as review lending programs to ensure that credit parameters meet the Bank's standards, regulatory compliance and best practices, while supporting our firm's growth strategies. Our credit risk information system is continuously being improved to enable more robust and granular analysis of the loan portfolio while delivering timely and accurate reporting of the Bank's loan structures, credit concentrations, and other risk data analytics. These efforts are undertaken in recognition of the Bangko Sentral's *Guidelines on Sound Credit Risk Management Practices*.

Market and Liquidity Risks. In the face of global and local financial markets volatility, our Market Risk Management unit employs risk metrics that guide our Treasury to effectively manage the risks arising from position-taking strategies balanced by the Board's overall risk appetite. In 2016, the RMC *lowered the Bank's trading and market risk appetite in anticipation of continued volatility in the financial markets*; this proved to be a prudent decision that helped preserve comprehensive income. We also provided *forward-looking risk scenarios and simulations on our liquidity and re-pricing gap risks* to nurture a proactive risk management decision making and strategy in the RMC and ALCO meetings. As a result, BPI's market and liquidity risk exposures were generally within the RMC-approved limits.

We closely monitor the market risk exposures of both trading and non-trading portfolios. Our assets in both on- and off-balance sheet trading portfolios are marked-to-market and the resulting gains and losses are recognized through profit or loss. Market risk exposure from these portfolios is measured by historical simulation value-at-risk models. The Bank has exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities. Financial derivatives are also used to hedge open exposures to mitigate price risk inherent in the Bank's portfolios. We ended 2016 with outstanding exposures in structured products of $389 million, composed of investments in credit-linked notes (92%) and range accrual notes (8%). The Bank's exposure on selling credit protection is limited to investments in CLNs.

Interest rate risk is inherent to the Bank's business operations, as movements in interest rates expose the Bank to adverse shifts in the level of net interest income and could impair the underlying values of its assets and liabilities. BPI is exposed to interest rate risk on unfavorable changes in the rate curves, which would have adverse effects on the BPI Group's earnings and its economic value of equity. Interest rate risk exposure arising from the core banking activities is measured by earnings-at-risk, or the potential deterioration in net interest income over the next 12 months due to adverse movements in interest rates, and balance sheet value-at-risk, or the impact on the economic value of the future cash flows in the banking book due to changes in interest rates.

Our interest rate gap model is measured based on the re-pricing schedule of the balance sheet accounts. For instance, loan accounts paying fixed interest rate are mapped according to maturity date, while loan accounts paying floating interest rate are mapped according to interest rate review dates. Likewise, for deposit accounts that do not have defined maturity dates (for example, savings and current accounts), re-pricing schedules are derived from the Bank's historical review of deposit rates and depositors' behavior.

As of end-December 2016, BPI's BSVaR and EaR levels stood at P4.2 billion and P293 million, respectively.

We ensure adequate liquidity levels at all times and contingency plans are in place in the event of real stress. Our liquidity profile is observed and monitored through its metric, the *minimum cumulative liquidity gap (MCLG).* MCLG, the smallest net cumulative cash inflow (if positive) or the largest net cumulative cash outflow (if negative) over the next three months, indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the Bank. BPI, on a consolidated basis, should be liquid enough to provide sufficient buffer for critical liquidity situations. A red flag is immediately raised and reported to management and RMC when the MCLG level projected over the next three months is about to breach the limit. Corrective actions are identified to resolve breaches, if any, and maintain a stable liquidity environment. Scenario analyses and simulations provide forward looking liquidity conditions to anticipate potential funding requirements.

We are continuously improving our risk models, systems, and stress tests. In 2016, we continued to explore our market risk and asset and liability management capabilities via robust systems that can run countless scenario analyses under both static and dynamic balance sheet conditions for ALCO reporting and strategies. With improved liquidity and re-pricing gap models, our price and liquidity stress tests became more extensive and robust. Under assumed severe market stress scenarios, the Bank's CAR and CET1 ratios will still be well within the minimum regulatory requirement; in addition, the Bank's liquidity profile could withstand an assumed prolonged crisis period. These models, systems, and stress tests are managed and run by a team of highly talented and dedicated risk officers with diverse experiences in market risk, trading and treasury operations.

Operational and Information Technology Risks.
Our Operational and Information Technology Risk Management unit monitors risks arising from inadequate or failed internal processes, people, and systems (for example, fraud, product flaws, breakdowns in information systems, physical safeguards or internal controls) or from external events (such as natural disasters that damage physical assets, electrical or telecommunication failures that disrupt business). Operational risk is inherent in all banking products and services, and may include risks that give rise to adverse legal, tax, regulatory, or reputational consequences. Information technology is a significant risk factor assumed in conjunction with operational risk, given the highly automated nature of the Bank's processes and services. We define IT risk as the risk of any potential adverse outcome arising from the use of or reliance on IT (i.e. computer hardware, software, devices, systems, applications and networks). IT risk includes, but is not limited to, information security, service availability, reliability and availability of IT operations, completion-on-specification of IT development projects, and regulatory compliance pursuant to the Bangko Sentral's policy guidelines on *Information Technology Risk Management*.

The OTRM unit develops, and monitors key risk indicators, and oversees thoroughness of bank-wide risk and control self-assessments, loss event management processes, and operational risk management awareness and appreciation programs. A significant resource and governance tool employed by the OTRM unit are the Bank's Business Risk Officers. BPI has several BROs embedded across the organization in key functional units, such as information systems, retail and corporate clients, financial products and services, asset management, global markets and centralized operations. The BROs are responsible to the OTRM for promoting a sound risk management culture, implementing operational and IT risk management best practices as determined by the OTRM unit, and ensuring timely submission of operational and IT risk reports. The Operational and IT Risk Management Committee provides the oversight over its OTRM unit, in accordance with regulatory requirements.

We manage our operational and IT risks by ensuring such risks are thoroughly identified, assessed, monitored, reported, and mitigated. We have defined clear responsibilities related to the performance of the risk management function, as well as the accountabilities, methods, and tools employed to identify and mitigate operational and IT risks in our operating units. We require operating units to undertake regular self-assessments to identify risks, assess the inherent and residual risks, identify controls, and assess the design and the performance effectiveness of the controls. KRIs are used to monitor risk profiles, trigger early warning alerts, and instigate mitigating action. We measure loss events diligently, with specific guidelines and processes in place to ensure timely and accurate reporting, analysis of root cause and business impact, and speedy problem resolution. We continuously enhance our tools and processes to improve operational efficiency and controls as we completed in 2016 the build-up of the risk and control library that facilitated the identification of such risks and controls, and implemented the automation of operational risk aggregation and reporting.

Our exposure to *operational risks are identified, assessed, and monitored as an integral part of risk assessment processes*. We currently use the Basel regulatory basic indicator approach to quantify operational risk-weighted assets, by using the historical total annual gross income as the main measure of risk.

Our risk management processes are ingrained in our new product development efforts. From inception to launch, new products, as well as its related processes and systems, are subject to design and testing activities aimed at safeguarding both the bank and our clients from the risk of economic loss, operational disruption, or compromise of personal or financial data. We are particularly diligent in this respect with our online products and services.

We are disciplined about crisis management and disaster preparedness. To mitigate the impact of adverse events, we have in place business continuity and disaster recovery plans to ensure the recovery and availability of all critical organizational assets and customer-servicing infrastructure. We also have robust BCP sites in strategic locations for critical head office services to meet the increasing demand on business continuity preparedness of the Bank's operations. The Bank operates a secondary data center, which houses backup facilities that provide processing, memory, network, and storage infrastructure that allows the Bank to operate its critical application systems. The secondary data center is located at a site significantly distant from the Bank's primary data center. With the increased challenges and threats in the overall business environment, the Bank had established a *more robust, proactive and intensified level of resilience and BCM system aligned with regulatory expectations*. A Crisis Resiliency Committee was formed to provide oversight on incident management and leadership during crises with guidance from the approved crisis resiliency plan of the Bank and supported by incident management team leads. An enhanced, a comprehensive BCM system manual was also established that includes the new methodology and processes for a comprehensive business impact analysis to identify business functions that are mission-critical, and risk assessment for business continuity to ascertain potential major disruptions and other risk interdependencies.

The Bank has also instituted key BCM performance metrics for monitoring and reporting, and continual improvement processes to ensure these remain relevant and up to date. Furthermore, business units performing critical functions in the delivery of the Bank's products, services, and channels have completed an annual testing of their respective BCPs. Our employees undergo continuous BCP training to promote awareness.

We are vigilant about physical and information security. Our enterprise information security management team is continuously revalidating and building the inventory of our information assets to enhance monitoring and reporting of information security risks. This includes information asset profiling and performing risk assessments for information security, the results of which will be used to develop and validate strategies to mitigate risks to the confidentiality, integrity, and availability of the Bank's information and information systems. The rapidly escalating threats from cyber-attacks that endanger the Bank's information assets and disrupt systems and processes prompted the Bank to further strengthen its information security posture and cybersecurity risk measures. We have implemented the cyber security operations center and upgraded our security information and event management software that expanded our detection capabilities, enhanced visibility, and enabled proactive response through monitoring, analytics and prompt detection.

We have also established a vendor or third-party risk management program to ensure that the use of service providers and IT suppliers does not unnecessarily expose the Bank to operational, regulatory and reputational risk. A central registry for vendors was implemented to provide visibility of their criticality rating, and monitoring of vendor performance to ensure that contract stipulations are met. We also employed a vendor information security management assessment methodology to assess the security posture of vendors.

Our Central Security Office is responsible for the security of the Bank's facilities and the overall safety of our clients and employees. Its main objectives are the protection of personnel and property, situation monitoring and resolution of incidents, and safety management. The CSO utilizes a three-tiered defense system, comprising of intelligence, target hardening, and incident response management in support of the Bank's crisis resiliency program. Cooperation with law enforcement agencies is encouraged whenever appropriate. In addition, its safety department implements the safety initiatives and requirements of the Bank, regularly conducts an assessment of possible workplace hazards, and establishes related standards and procedures, training and acquired equipment to mitigate physical risks to Bank's operations, personnel and property.

We have adopted technologies that integrate the Bank's alarms, access controls, and centralized closed circuit TV systems. To date, all regular branches are equipped with CCTVs and most of our branches are connected to our central video and alarm monitoring system. Branches and ATM sites connected to this system are monitored 24/7 at our centralized security operations center. Moreover, a safety program is in place that aims to institutionalize initiatives that lead to effective policy making. The safety department continuously rolls out bank-wide disaster risk reduction and management programs through regular education and training as part of a strategic communications plan.

We are *extensively and competently prepared against risk of litigation or regulatory* penalty. We have two specialized legal services divisions composed of highly trained legal professionals that serve as the Bank's main legal resource. The Corporate Legal Affairs unit has a critical preventive role by providing proactive legal measures for the purpose of effectively managing legal and operational risks. It has the documentation and research departments to respectively ensure that the rights and obligations of the Bank are actually protected with all of its contractual relations and that the Bank is abreast with the most recent legal developments and requirements. It also conducts a legal risk assessment of potential claims against the Bank and recommends legal risk mitigation measures. It further empowers the Bank units by issuing legal advisory bulletins that highlight legal issues, new laws, and regulatory fiats that impact our products and services, and promote awareness of initiatives of the Bureau of Internal Revenue. This unit also provides training and seminars in support of its bulletins.

Our Dispute Resolution and Litigation unit plays a significant role in protecting the rights and interests of the Bank and in avoiding losses when the Bank is involved in litigation. It handles criminal, civil and administrative cases, that is, defensive cases filed by any party against the Bank for any reason, as well as offensive cases filed on behalf of the Bank to assert its rights and interests, claim for damages; prosecute errant employees and other parties; and recover or collect from delinquent borrowers. To expedite resolution of cases, the unit employs innovative litigation techniques and utilizes alternative modes of dispute resolution for the purpose of expediting recovery and resolution of disputes.

In view of increasing IT-related losses (mostly from industry-wide credit card fraud and card skimming incidents), the OTRM unit continues to closely *monitor established measurements and limits on risk indicators, and implements mitigating measures*. We have employed a real-time card fraud detection system that helps the Bank significantly improve fraud detection, false positive rates, and fraud case handling efficiencies. E-mail and SMS notifications for ATM withdrawals exceeding set threshold amounts are also in place. We also have recently updated our ATM switch and are either replacing or upgrading our ATM machines to be EMV-compliant.

To further strengthen operational risk and information security awareness, we continually implement *programs to make clients and employees aware of current cybercrime landscapes, emerging risks and trends and mitigating measures*. In 2016, we have launched an online training platform that is accessible anywhere, anytime and initially covers the basic and advanced information security awareness course for employees. The Bank also facilitated Risk Management, Compliance, and Internal Audit forums to select head office and branch employees with the goal of reinforcing risk management and internal control awareness, regulatory and AML developments, aligned with the Bank's three-lines-of-defense control model. This model will be continuously rolled-out moving forward.

As part of our initiatives to advance risk management methodologies, the Bank's OTRM unit is now regularly performing *operational risk stress tests, through scenario analysis, to support the internal capital assessment for operational and IT risks*. Through a series of stress scenarios, OTRM is able to identify, analyze, and assess the impact of unexpected and severe operational risk events. This exercise ensures that the impact of high severity events are captured during risk assessment, especially those not yet reflected in the Bank's existing historical loss data.

Model Risk. We continuously test the quality of our risk models. Our Risk Models Validation unit is responsible for conducting the independent model validation activities of the Bank's risk and stress testing models. The independent validation of risk models is governed by the Bank's model risk management policy and governance framework, aimed at ensuring an active and effective model risk management across the enterprise.

Asset Management and Trust Risk. The AMT Risk Management unit carries out the independent function of quantifying, monitoring and reporting of risks arising from the Bank's asset management and trust business. The unit monitors and reports to the RMC on a regular basis the investment risk metrics and KRIs involving the Bank's unit investment trust funds and managed client portfolios, compliance to established limits, risk-adjusted performance measures, as well as trending and comparative analysis versus peers. Credit, liquidity, strategic and operational risk management issues affecting the Bank's asset management and trust business are likewise regularly tracked and reported.

CAPITAL ADEQUACY

Our Strategic and Corporate Planning division oversees the *management of the Bank's capital adequacy*. Capital adequacy ratio, or CAR, is a measure of the Bank's total qualifying capital relative to its risk-weighted assets, and indicates the ability of its capital funds to cover various business risks.

This division also ensures *compliance with regulatory and internal minimum capital adequacy requirements*, referred to as the Bank's internal minimum CAR, or IMCAR, and the CAR management action trigger, or CARMAT, which incorporate the Bank's internal capital buffers and limit triggers, and capture risks beyond Pillar 1 (credit, market, and operational).

Furthermore, as the central planning unit of the Bank, this division is responsible for *assessing and raising the strategic capital needs of the Bank, as well as initiating approvals for dividend payments to shareholders*.

Sound Capital Management. Effective capital management supports the Bank's assets and absorbs losses that may arise from credit, market and liquidity, operational and IT, and other risk exposures. The Bank's capital management framework ensures that on stand-alone and group bases, there is sufficient capital buffers at all times to support the respective risk profiles of the various businesses of the Bank, as well as changes in the regulatory and accounting standards and other future events.

BPI submits a comprehensive internal capital adequacy assessment process, or ICAAP, document annually to the Bangko Sentral, in accordance with the Basel-Pillar II guidelines.

As of December 31, 2016, BPI's solo (parent) and consolidated CAR stood at 11.62% and 13.00% respectively, higher than the minimum regulatory requirement of 10% and the Bank's internally set IMCAR and CARMAT. The Bank's solo and consolidated CET1 capital ratio at 10.71% and 12.10%, respectively, likewise compare favorably with regulatory and internal limits, including capital conservation buffer.

The table below shows the Bank's CAR components for 2016 and December 2015:

Risk (Php Mn)	Regulatory Capital	
	2016	2015
Credit Risk	102,839	86,466
Market Risk	1,459	2,365
Operational Risk	10,287	9,321
TOTAL	**114,585**	**98,152**

Capital Adequacy	Amount (Php Mn) 2016	2015
CET1/Net Tier1 1/	138,691	124,744
Tier2/Net Tier2 2/	10,299	8,659
Total QC 3/	**148,989**	**133,403**
Total CRWA 4/	1,028,388	864,657
Total MRWA 5/	14,590	23,653
Total ORWA 6/	102,868	93,208
TRWA 7/	**1,145,846**	**981,517**
Consolidated Ratios (%)		
CAR	**13.00**	**13.59**
CET1	**12.10**	**12.71**
Solo (Parent) Ratios (%)		
CAR	**11.62**	**12.02**
CET1	**10.71**	**11.13**

1/ Common Equity Tier 1 Capital/Net Tier 1
2/ Tier 2 Capital/Net Tier 2
3/ Qualifying Capital
4/ Credit risk-weighted assets
5/ Market risk-weighted assets
6/ Operational risk-weighted assets
7/ Total risk-weighted assets

The Bank's total qualifying capital for the years ended 2016 and 2015 were at ₱149.0 billion and ₱133.4 billion, respectively. The Bank's total qualifying capital for 2016 and 2015 were largely composed of CET1/Tier 1 capital at 93.1% and 93.5%, respectively.

A summary of our CAR is set forth in our audited financial statements of this annual report, under Note 29.7 (Capital Management). Computation of the Bank's CAR in the audited financial statements was primarily based on the CAR reporting template provided by Bangko Sentral circulars and other relevant updates.

To fully comply with the phased-in implementation of the Basel III capital and liquidity reforms by the Bangko Sentral effective January 2014, BPI has adopted the Basel III CAR reporting template; as well as the implementation of the leverage ratio and domestic systemically important banks regulatory reporting. During the year, BPI has also performed quantitative impact studies on the revised standardized approach for credit risk, liquidity coverage ratio and net stable funding ratio; and submitted the initial LCR reporting to the BSP during its observation period.

Discussions both at the Bank management and Board levels also covered the subsequent phases of the transition and implementation plans in order to meet the revised minimum capital and liquidity requirements prescribed by Basel III, including interdependencies with the impending PFRS 9 implementation by January 2018. Key officers of the Bank have also had in-depth and relevant training on Basel-related topics and risk management best practices. Supplemental schedules on capital and risk management disclosures pursuant to Bangko Sentral memorandum M-2014-007 are found at the end of this chapter.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Bank transacts with related parties which include its Directors, officers, stockholders and related interest, subsidiaries and affiliates (including those under the Ayala group of companies, or conglomerate), as well as other related parties defined in the Bank's internal policy.

These transactions involve credit and non-credit exposures such as borrowings, guarantees, agreements for the periodic provision of leases or other services, asset purchases and sales, derivative transactions, trust transactions, and investments for which related parties are perceived to have significant influence. As part of the Bank's effort to ensure that transactions with related parties are normal banking activities and are done at arm's length (particularly, on terms and conditions comparable to those offered to non-related parties or to similar transactions in the market), *vetting is done either by the Board-level Related Party Transaction Committee or Management Vetting Committee, depending on materiality, prior to implementation*. Related parties whose individual and group exposures, existing or potential, are considered material have been vetted by the RPTC.

The RPTC is composed of three Directors, majority of whom are Independent including its chairman, and two non-voting members from management, the Chief Audit Executive and the Chief Compliance Officer, both of whom perform post-reviews to ensure proper implementation of related party transactions. On the other hand, the Management Vetting Committee is composed of the Executive Vice Presidents of the Bank.

Loans and advances granted to related parties as disclosed in the Audited Financial Statements, particularly Note 27 on RPTs and in Schedule B, are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and maturity periods ranging from five days to 14 years.

The Bank is committed to ensure strict compliance with laws, regulations and reporting requirements relating to DOSRI and related party transactions, by instituting rigorous vetting processes and establishing adequate controls and oversight mechanisms.

COMPLIANCE

The Bank views compliance to mean not only adherence to laws, regulations, and standards but, more importantly, the *consistent conduct of the affairs of the Bank within a culture of high integrity, bounded by conformity to ethical business practice, abiding by the principles of fair dealing, accountability and transparency*. This ensures that in all our areas of activity, the Bank and its stakeholders are protected from business risks as comprehensively as possible. We value most our reputation and the fact that we are trusted by our shareholders, clients, employees, partners, and members of the communities we serve.

Oversight of the management of the Bank's business risk and implementation of its compliance function is the responsibility of our Board of Directors, through the Audit Committee. At the management level, the compliance function is carried out by the Compliance Office, led by our Chief Compliance Officer.

The Compliance Office *oversees the implementation of the Bank's enterprise-wide compliance programs*. These programs take into account the size and complexity of the Bank, the relevant rules and regulations that affect its operations, and the business risks that may arise due to non-compliance. By using regulatory and self-assessment compliance matrices, compliance measures are formulated to mitigate identified business risks and tested to ensure effectiveness.

The Compliance Office routinely provides advice to individual business units on applicable laws, directives, standards, and regulations as well as provides compliance support to the Group Compliance Coordinating Officer. It jointly develops guidance on operations and business processes in order to guard against potential compliance risk, and reviews and assists in interpretations of laws, implementing rules and regulations, standards and guidelines of the Bangko Sentral, SEC, AMLC, PSE, PDIC, IC and other regulatory bodies for compliance, communicating them and verifying adherence.

The Compliance Office also helps in efforts towards achieving adherence to the Bank's internal confidentiality regulations ("Chinese Walls"); provides regular training and education for employees on the applicable regulations, rules and internal standards; and leads the Bank's business units in compliance risk assessment, rules-based testing and reporting.

The Compliance Office is currently organized to cover *Regulatory Compliance, Corporate Governance, Anti-Money Laundering Compliance and FATCA Compliance*. Considering the rapid developments in the regulatory sphere as well as the growing complexity of the Bank's products, services and transactions, the Compliance Office evolves in its coverage of compliance practice areas to anticipate and meet forward challenges. Enhancement of our compliance function's scope and domain is redefined for new and emerging sources of compliance risk.

The Compliance Office is also empowered by the accountability to it of *14 Group Compliance Coordinating Officers*, or GCCOs, who are embedded in operational units throughout the Bank. The GCCOs are charged with enforcing Compliance Office initiatives, as well as providing timely reports to the Compliance Office.

The Compliance Office applies a *three-layered compliance testing and monitoring process*, which includes unit self-assessment testing, conducted by GCCOs; independent random testing, performed by the Compliance Office; and independent periodic review by the Bank's Internal Audit Division, whose results are reported regularly to the Audit Committee.

Overall enforcement is through *self-regulation within the business units*, and *independent testing and reviews* conducted by the Compliance Office and Internal Audit. Results of these reviews are elevated to the Board's Audit Committee and, with respect to governance issues, the Corporate Governance Committee.

The Compliance Office promotes adherence and awareness to laws, rules and regulations by electronically posting information and documents in a compliance database that is accessible to all employees. Regular meetings are conducted by the Compliance Office with the GCCOs to discuss the impact of new regulations, decide on the required compliance measures and amend compliance matrices as necessary. Through continued liaison and dialogue with regulators, the Compliance Office ensures the prompt dissemination of new regulations and other developments affecting bank operations.

Regulatory Compliance. Our Regulatory Compliance Department covers adherence to all relevant and applicable Philippine banking laws and regulations. They are in charge especially of regulatory compliance management with respect to the Bangko Sentral's institutional compliance rating system, which comprehensively evaluates the effectiveness of a bank's compliance system in mitigating business risk. Partnership-building with our regulators (Bangko Sentral, SEC, PSE, AMLC and PDIC), external auditor, and industry organizations (like the Association of Bank Compliance Officers and the Bankers Institute of the Philippines) is also essential work in regulatory compliance management. Through continued liaison and dialogue with regulators and interaction with compliance colleagues in the industry, this department ensures the prompt dissemination of information on new regulations and compliance-related developments affecting bank operations.

Corporate Governance. The Corporate Governance Department covers the compliance aspect of the Bank's corporate governance framework and governance requirements, externally, with respect to the laws relevant and applicable to BPI as a bank and as a publicly listed company such as the Corporation Code, and the rules and regulations of the Bangko Sentral, SEC, PDIC and the PSE, and internally, with respect to BPI's By-Laws, Manual of Corporate Governance, Code of Business Conduct and Ethics, and corporate governance-related policies such as those on insider trading, whistleblower, and related party transactions.

The Corporate Governance Department also monitors compliance with respect to the Bank's participation in regional corporate governance initiatives jointly sponsored by the SEC and the Institute of Corporate Directors such as the ASEAN Corporate Governance Scorecard. Working closely with the Board-level Audit and Corporate Governance Committees, this department ensures that the Bank's corporate governance foundations can withstand rigorous tests and demands of more stringent supervision, regulation, disclosure, and bank governance best practices.

Anti-Money Laundering Compliance. The prevention of financial crimes is a top priority of BPI, not only because they pose a significant threat to our reputation, but because they weaken the integrity of the global financial system. Hence, our Compliance Office extends its ambit beyond the Bank, its policies, and its employees to ensure that our clients also act within the law and do not use the Bank for illegal activities.

The Compliance Office's Anti-Money Laundering Department is responsible for *monitoring customer and counterparty transactions in compliance with the Anti-Money Laundering Law, its implementing rules and regulations, and Bangko Sentral Circular 706*. Developed under the guidance of the Bangko Sentral's Money Laundering and Terrorist Financing Prevention Program, the Bank's anti-money laundering program covers all its subsidiaries and affiliates.

This program aims to *implement sound anti-money laundering practices and combat terrorist financing and other financial crimes*. It consists of conscientious customer due diligence and know-your-customer, or KYC, processes; technology and automated tools to identify and detect financial transactions of a suspicious nature; and monitoring, periodic review, and timely reporting of anti-money laundering-combating the financing of terrorism (AML-CFT) events to senior management. This program also includes regular and effective AML-CFT training and awareness programs for all personnel; maintenance of customer data and transaction documents within prescribed timelines; and timely updates of policies and procedures in accordance with changes in regulations and AML and CFT typologies.

With increasing global AML initiatives and numerous new regulations, we recognize that our AML processes and controls are changing from a stand-alone function under Compliance, to an increasingly complex and overarching function cutting across legal, risk and operations. *We constantly review our program to ensure compliance* *with the latest legislative and regulatory developments*. Our Board and management support bank-wide efforts towards establishing strong AML assurance mechanisms and globally consistent procedures.

Our *specialized IT system* captures information required for covered transaction reports, and detects suspicious transaction patterns for reporting to the Anti-Money Laundering Council.

And to promote awareness, knowledge and understanding of AML concepts, principles and requirements, all employees are required to attend *training programs conducted by our AML Department or through e-Learning courses* available with the BPI University, our in-house training academy.

FATCA Compliance. We recognize global movements to widen tax regimes across borders such as the enactment into law by the United States government of the Foreign Account Tax Compliance Act. We value our ability to transact efficiently in US dollars and, in support thereof, established a FATCA Compliance Department to *ensure consistent and effective compliance with FATCA regulations throughout the Bank and its subsidiaries*.

As required under the rules of FATCA, we have appointed a responsible officer to oversee the Bank's compliance with regulations, establish a program to ensure its effective implementation, and accomplish certain certifications with the IRS. Our FATCA compliance program provides for additional requirements on customer due diligence and documentation and new reporting guidelines to relevant tax authorities.

INTERNAL AUDIT AND CONTROL

Our Internal Audit Division is an independent body that supports the Audit Committee in fulfilling its oversight responsibilities by providing an independent, objective assessment on the adequacy and effectiveness of the Bank's risk management, internal controls, and governance processes through well-established risk-based audit plans. Internal Audit also ensures that the Bank's operating and business units adhere to internal processes and procedures and to regulatory and legal requirements.

This unit *reports directly to the Board through its Audit Committee*. It collaborates with other assurance providers such as the Risk Management Office, Compliance Office, external auditors, and other oversight units for a comprehensive review of risks and compliance in the institution, and ensures that business units proactively manage the risk and compliance exposures.

The internal audit function as *empowered by the Internal Audit Charter* includes free access to all records, properties and personnel. In this respect, the Audit Committee reviews the internal audit function, including its independence and the authority of its reporting relationships. The Internal Audit Division continuously improves the capabilities of its auditors through continuous education on specialized areas of knowledge, auditing techniques, regulations, and banking products and services.

The Internal Audit Division 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. The program includes periodic internal and external quality assessments and ongoing monitoring of the performance of the internal audit activity. Periodic internal assessments are conducted annually, while external quality assessments are conducted at least once every five years by a qualified independent validator. This unit maintains its "generally conforms" ratings on both internal and external assessments, which indicate that its activities have continuously conformed to professional standards, code of ethics, and other internal standards.

The Internal Audit Division is headed by a Chief Audit Executive who is appointed by the Board and reports functionally to the Board of Directors through the Audit Committee and administratively to the President and CEO. This ensures that the Chief Audit Executive is not dependent on any bank executive or operating officer for the security of his or her position. Additionally, it ensures that the Chief Audit Executive has access to the Board, on a confidential basis, and that the Internal Audit Division is independent of bank management, both by intent and actual practice.

The Audit Committee recommends to the Board the appointment of a Bangko Sentral-accredited external auditor for the purpose of preparing or issuing an audit report or related work. It also assesses the external auditor's effectiveness, independence and objectivity, ensuring that key partners are rotated at appropriate intervals. The Committee also reviews the external auditor's annual plan, scope of work, and, in consultation with management, approves the external auditor's term of engagement and audit fees. They also oversee the resolution of disagreements between management and the external auditors in the event that they arise.

For fiscal year 2016, fees to the Bank's external auditor, Isla Lipana & Co., amounted to P12.635 million in audit fees and P3.398 million in audit-related fees. BPI did not have any non-audit engagements with its external auditor for the year 2016.

CODE OF BUSINESS CONDUCT AND ETHICS

Our Code of Business Conduct and Ethics is the exceptional standard set for BPI officers and employees that guides what we say and do in our relationships with our clients, suppliers, co-employees, business partners, shareholders, competitors, government and regulators, markets and communities. The Code is our *commitment to the behaviors that are expected from the Bank as a financial institution imbued with public interest, and from each BPI employee upholding that public interest*. The Code is also the guidance that applies to behaviors across all activities of the BPI Group and, where applicable, to counterparts and business partners.

These standards of behavior are *derived from the BPI Credo and Core Values*, and are aligned with key global initiatives that promote responsible business practices.

The core values embodied in the BPI Credo and Code of Business Conduct and Ethics are *mandatory for all BPI professionals at all levels, including directors and officers*. As a financial institution, the ethical character and integrity of our Board, management and employees are considered one of the most important safeguards of corporate governance—BPI directors, officers and employees must earn the trust of all of our stakeholders by always acting with integrity, fairness, accountability and transparency.

As no code could address every situation an employee may encounter, all employees, including our Board and management, are required to follow both the spirit and the letter of the Code, its policies, and procedures.
All BPI directors, officers and employees must abide by and fulfill their duty and personal responsibility to read, understand and comply with the Code of Business Conduct and Ethics. Most importantly, all BPI directors, officers and employees are duty-bound to protect the Bank's reputation and its business.

Major internal policies are also in place to lend guidance, provide support and lay the proper context in BPI directors, officers and employees' adherence to the Code of Business Conduct and Ethics. These include the standards and policies on conflict of interest, insider trading, whistleblower, and related party transactions.

Conflict of Interest. BPI does not tolerate those who place their interest above that of our institution, our clients, or our business partners. We have in place standards on conflict-of-interest that elevate the interest of the Bank above that of the personal interests of Directors, officers, and employees. These standards prohibit Directors, officers, and employees from using their position of authority or rank to directly or indirectly derive personal gain or advantage.

Our standards on conflict of interest expect all Directors, officers and employees to refrain from any conduct that could be viewed unfavorably by our clients, co-employees, competitors, suppliers, investors, regulators, or the public. The standards also require full cooperation and provision of complete and accurate information from employees during government, regulatory or internal enquiries, investigations and audits. It advocates that Directors, officers and employees do not tolerate corruption or any form of bribery nor provide or accept improper inducements in the course of any business dealing.

The standards also cover specific conflict-of-interest situations such as receipt of gifts from third parties, respect for trade secrets, and use of non-public information, and use of company funds, assets and information.

Insider Trading. The Bank has an Insider Trading Policy which prohibits its covered persons or directors, officers, employees, and other parties who are considered to have knowledge of material facts that have not been disclosed to the public, including any information that will likely affect the market price of BPI's securities or BPI clients' securities, from buying or selling these securities for their own personal account.

Covered persons are strictly prohibited from trading during periods of structured and non-structured disclosure (trading blackout). This prohibition includes passing on material, non-public information relating to BPI or its clients to anybody who may buy or sell securities. A trading blackout prohibits trading once the covered person is in receipt of material information before a structured or unstructured disclosure is made until after said disclosure.

All Directors and senior management conform to the normal, regular reportorial requirements of the SEC and the PSE for the purchase and sale of BPI shares.

Whistleblower. The Bank supports a whistleblower program, *an important mechanism for preventing and detecting fraud or misconduct, and enabling fast and coordinated incident responses as we establish cause, remedial actions, and damage control procedures.*

All personnel, including the Board, officers and employees, as well as clients, suppliers, and all stakeholders, can report any violation of policies, procedures and applicable laws and regulations which include, but are not limited to, fraud, sexual harassment, theft, stealing, conflict of interest, information security violation, violation of bank policies, rules and regulations, and any other acts which are inimical to the interests of the Bank and the BPI Group.

The whistleblower may approach any of the following officers who are the designated contacts for the Bank and the primary reporting line: Head of the Human Resources Management Group, Chief Audit Executive, and Chief Risk Officer. Under extraordinary circumstances, the whistleblower may also course the complaint through other reporting lines, like the President and CEO or the Chairman of the Bank's Audit Committee.

The whistleblower may send or communicate a report, formally or anonymously, with the primary contacts or communicate in writing, by telephone, in person, or through the external email *eye_report@bpi.com.ph* or the internal e-mail *BPI Eye Report Box*.

Upon receipt of the whistleblower report, the personnel to whom the report was disclosed shall immediately initiate the investigation by turning over the details, and documents, if any, of the reported case to the investigating unit of the Bank. The investigation of the whistleblower report shall follow due process as stipulated in the Bank's manual of operations on standards in handling fraud and irregularities.

Our whistleblower policy emphasizes our *commitment to fostering and maintaining an environment of utmost confidentiality where all personnel may act appropriately without fear of reprisal, and be treated with utmost confidentiality*. An individual who makes a protected disclosure shall not suffer harassment, retaliation, or adverse employment consequences. Any person who retaliates against any individual who makes a protected disclosure shall be subject to discipline, including termination.

In case the whistleblower believes he has been subjected to retaliation, he may seek redress or file a formal complaint to the Head of the Human Resources Management Group, Chief Audit Executive or Chief Risk Officer.

Conflict of interest standards, and insider trading, and whistleblower policies and guidelines are included in the Bank's management and operating manual and personnel policy manual, each of which is recorded in electronic databases readily accessible to employees. In addition, these policies are regularly reiterated via internal e-mail to ensure constant awareness of the need to comply with said policies.

INVESTOR RELATIONS

BPI believes that transparent and accurate reporting of operating and financial results, major business decisions and developments gives shareholders and investors the relevant inputs to their investment decisions. In addition, such reporting provides the basis for the sound, and robust market valuation of our shares and a proper view to all stakeholders of possible future losses or gains.

Our Investor Relations Unit, which is part of the Bank's Strategic and Corporate Planning Division, is tasked with a program of proactive, uniform, appropriate and timely communication and reporting, in the spirit of full disclosure and in compliance with the Securities Regulation Code, and SEC and PSE rules, regulations and disclosure guidelines.

Apart from structured disclosures, the Bank, through this unit, also discloses information not required under the disclosure rules if, in the Bank's estimation, such matters would impact on investment decisions by interested parties. Such matters are disclosed as promptly and comprehensively as possible by appropriate methods.

In carrying out its structured and unstructured disclosures, the Bank makes full use of the electronic facilities provided by the PSE's Electronic Disclosure Generation Technology or PSE EDGE, a state-of-the-art, fully automated system that facilitates the efficient processing, validation, submission, distribution, and analysis of time-sensitive disclosure reports submitted to the exchange. Information disclosed on PSE EDGE is also promptly disclosed to the SEC as required and via other media, including the Bank's site and electronic mail to relevant, interested parties.

The Investor Relations Unit also provides company presentations in the annual stockholders meeting and works with the Bank's corporate communications team for media briefings and press releases. Such information on the company is shared regularly with the investing public, analysts, and members of the media. Statements in these presentations describing BPI's objectives, projections, estimates, expectations may be forward-looking. Actual results may differ materially from the statements made in the presentations, whether expressed or implied.

All investor relations presentations and press releases distributed, including presentations of the chairman and the President and CEO at the company's Annual Stockholders Meeting, may be viewed at bpiexpressonline.com.

FINANCIAL CONSUMER PROTECTION FRAMEWORK

In 2016, the Bank, through its Customer Experience Management Office (CXMO) established the Minimum Guidelines on Financial Consumer Protection for all its business units and subsidiaries to enhance overall customer experience and immediately address customers' feedback on our products and services.

To further strengthen customer interactions in all touch points, the Bank designated Customer Assistance Officers who will take the lead in addressing customer issues in each business unit and ensuring compliance with the Bank's Consumer Protection Program. In coordination with Human Resources, a Consumer Protection Training Program was created to provide continuing education about Consumer Protection laws, rules, and regulations as well as related bank policies and procedures for all Bank personnel.

For 2016, the Bank tracked and monitored customer issues and feedback about its products and services (the table below shows the number of customer complaints we received for the past three years, and the number of customer transactions recorded for the same year). Action plans were prepared to ensure that the most pressing and important issues raised by customers were resolved within the committed turn around times.

	2014	2015	2016
Complaints (in thousands)	260.4	291.5	306.0
Transactions (in millions)	1,083.0	1,268.1	1,341.4

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.

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

Additionally, we hold meetings, briefings, and conferences for investors, analysts, and members of the media.

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

SUPPLEMENTARY SCHEDULES ON CAPITAL AND RISK MANAGEMENT DISCLOSURES PURSUANT TO THE BANGKO SENTRAL'S MEMORANDUM M-2014-007

Capital Structure

The Bank's qualifying capital for the years ended 2016 and 2015 were ₱149.0 billion and ₱133.4 billion, respectively. The Bank's total qualifying capital for 2016 and 2015 were largely composed of CET1 capital and Tier1 at 93.1% and 93.5%, respectively.

The table below shows the composition of the Bank's capital structure and total qualifying capital.

Capital Structure (Php Mn)	December 31, 2016			December 31, 2015		
	CET1/ Tier1	Tier 2	TOTAL	CET1/ Tier1	Tier 2	TOTAL
Core Capital	**160,901**	**10,299**	**171,200**	**146,181**	**8,659**	**154,840**
Paid-up common stock	39,308	-	39,308	39,285	-	39,285
Additional paid-in capital	29,511	-	29,511	29,358	-	29,358
Retained earnings	75,763	-	75,763	64,590	-	64,590
Undivided profits	21,827	-	21,827	18,294	-	18,294
Net unrealized gains or losses on AFS securities	(4,047)	-	(4,047)	(4,553)	-	(4,553)
Cumulative foreign currency translation	(313)	-	(313)	(201)	-	(201)
Remeasurements of Net Defined Benefit Liability/(Asset)	(1,488)	-	(1,488)	-	-	-
Others	-	-	-	(924)	-	(924)
Minority interest 1/	339	-	339	332	-	332
General loan loss provision 2/		10,299	10,299	-	8,659	8,659
Deductions	**22,210**	**-**	**22,210**	**21,437**	**-**	**21,437**
Total O/S unsecured credit accommodations 3/	1,846	-	1,846	1,885	-	1,885
Total O/S unsecured loans 4/	120	-	120	2,045	-	2,045
Deferred tax assets	8,398	-	8,398	7,245	-	7,245
Other intangible assets	2,054	-	2,054	1,767	-	1,767
Defined benefit pension fund assets (liabilities)	18	-	18	20	-	20
Investments in equity 5/	2,645	-	2,645	1,921	-	1,921
Significant minority investments 6/	3,548	-	3,548	3,177	-	3,177
Other equity investments 7/	3,582	-	3,582	3,377	-	3,377
Gross Qualifying Capital	**138,691**	**10,299**	**148,990**	**124,744**	**8,659**	**133,403**
Required deductions	-	-	-	-	-	-
TOTAL QUALIFYING CAPITAL	**138,691**	**10,299**	**148,990**	**124,744**	**8,659**	**133,403**
% to Total	**93%**	**7%**	**100%**	**94%**	**6%**	**100%**

1/ Minority interest in subsidiary banks, which are less than wholly-owned

2/ General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio

3/ Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)

4/ Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates

5/ Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable) and Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)

6/ Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)

7/ Other equity investments in non-financial allied undertakings and non-allied undertakings

Credit risk-weighted assets. Using the Basel regulatory standardized approach, our total credit risk-weighted assets as of December 31, 2016 amounted to ₱1.03 trillion, and are composed of on-book credit exposures after risk mitigation of ₱1.02 trillion, off-balance sheet risk-weighted assets of ₱4.9 billion, counterparty risk-weighted assets in the banking book of ₱.8 billion and counterparty risk-weighted assets in the trading book of ₱3.3 billion.

The table below provides a summary of the Bank's credit risk-weighted assets for 2016 and 2015:

Credit RWAs (Php Mn)	Amount	
	2016	2015
Total RWA (On-balance sheet) [0]/	1,020,825	856,497
Total RWA (Off-balance sheet) [0]/	4,909	5,055
Total counterparty RWA (banking book) [1]/	830	-
Total counterparty RWA (trading book)	3,325	4,389
Total RWA credit-linked notes (banking book)	-	-
Total Gross RWA	**1,029,890**	**865,942**
Deductions: General loan loss provision [2]/	(1,502)	(1,285)
Total Credit RWAs	**1,028,388**	**864,657**

[0]/ Risk-weighted assets
[1]/ For derivatives and repo-style transactions
[2]/ In excess of the amount permitted to be included in upper Tier 2

The Bank's credit risk exposures on both on- and off-balance sheet assets after mitigation, broken down by risk buckets, for 2016 and 2015 are as follows:

Schedule A

December 31, 2016								
RWA (On-Balance Sheet) (Php Mn)	Total Credit Risk Exposure after risk Mitigation	Risk Weights						Total CRWA [1]/
		0%	20%	50%	75%	100%	150%	
Cash on hand	35,460	35,460	-	-	-	-	-	35,460
Checks and other cash items	252	-	252	-	-	-	-	252
Due from BSP	239,527	239,527	-	-	-	-	-	239,527
Due from other banks	21,728		1,737	19,759	-	232	-	21,728
Available-for-sale (AFS)	23,711	2,167	7,133	9,989	-	4,423	-	23,711
Held-to-maturity (HTM)	267,361	174,303	13,742	57,984	-	12,174	-	258,202
UDSCL [2]/	-	-	-	-	-	-	-	-
Loans and receivables	981,591		48,676	48,946	51,883	825,744	6,342	981,591
Loans and receivables - Others [3]/	4,577	4,577	-	-	-	-	-	4,577
Sales contract receivables	460	-	-	-	-	460	-	460
ROPA [4]/	3,004	-	-	-	-		3,004	3,004
Sub-total	**1,577,672**	**456,033**	**71,540**	**136,678**	**51,883**	**843,034**	**9,346**	**1,568,514**
Other assets	27,646	-	-	-	-	27,646	-	27,646
Total exposures, plus other assets	**1,605,318**	**456,033**	**71,540**	**136,678**	**51,883**	**870,680**	**9,346**	**1,596,160**
Total risk-weighted OBSA (no CRM) [0]/ [5]/	-	-	14,308	68,339	38,912	870,680	14,019	1,006,258
Total risk-weighted OBSA (with CRM) [5]/	-	-	983	572	-	13,012	-	14,566
Total RWA (On-Balance Sheet)	-	-	**15,291**	**68,911**	**38,912**	**883,692**	**14,019**	**1,020,825**

December 31, 2015 RWA (On-Balance Sheet) (Php Mn)	Total Credit Risk Exposures after Risk Mitigation	Risk Weights 0%	20%	50%	75%	100%	150%	Total CRWA [1]/
Cash on hand	35,445	35,445	-	-	-	-	-	35,445
Checks and other cash items	256	-	256	-	-	-	-	256
Due from BSP	214,970	214,970	-	-	-	-	-	214,970
Due from other banks	21,157		3,574	17,304	-	278	-	21,157
Available-for-sale (AFS)	41,323	23,803	3,447	9,305	-	4,203	-	40,759
Held-to-maturity (HTM)	244,371	185,237	2,435	46,067	-	4,714	-	238,453
UDSCL [2]/	-	-	-	-	-	-	-	-
Loans and receivables	839,150	-	26,391	43,963	54,474	708,522	5,800	839,150
Loans and receivables - Others [3]/	6,521	6,521	-	-	-	-	-	6,521
Sales contract receivables	0	-	-	-	-	-	0	0
ROPA [4]/	3,687	-	-	-	-	-	3,687	3,687
Sub-total	**1,406,882**	**465,977**	**36,103**	**116,639**	**54,474**	**717,718**	**9,488**	**1,400,399**
Other assets	16,977	-	-	-	-	16,977	-	16,977
Total exposures, plus other assets	**1,423,859**	**465,977**	**36,103**	**116,639**	**54,474**	**734,695**	**9,488**	**1,417,376**
Total risk-weighted OBSA (no CRM) [0]/ [5]/	-	-	7,221	58,320	40,856	734,695	14,231	855,322
Total risk-weighted OBSA (with CRM) [5]/	-	-	187	446	-	543	-	1,175
Total RWA (On-Balance Sheet)		-	**7,408**	**58,765**	**40,856**	**735,237**	**14,231**	**856,497**

[0]/ On-balance sheet assets
[1]/ Credit risk-weighted assets
[2]/ Unquoted debt securities classified as loans
[3]/ Loans and receivables arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions
[4]/ Real and other properties acquired
[5]/ Not covered by, and covered by credit risk mitigants, respectively

Schedule B

December 31, 2016 RWA (Off-Balance Sheet) (Php Mn)	CEA [0]/	Risk Weights 0%	20%	50%	75%	100%	150%	Total CRWA [1]/
Direct credit substitutes [2]/	2,437	-	-	-	646	1,576	-	2,222
Transaction-related contingencies [3]/	1,107	-	-	-	19	1,081	-	1,101
Trade-related contingencies [4]/	1,740	-	31	-	91	1,465	-	1,587
Total RWA (Off-Balance Sheet)		**-**	**31**	**-**	**757**	**4,122**	**-**	**4,909**

December 31, 2015 RWA (Off-Balance Sheet) (Php Mn)	CEA [0]/	Risk Weights 0%	20%	50%	75%	100%	150%	Total CRWA [1]/
Direct credit substitutes [2]/	3,195	-		-	691	2,273	-	2,964
Transaction-related contingencies [3]/	697	-	-	-	19	671	-	690
Trade-related contingencies [4]/	1,434	-	3	-	60	1,337	-	1,401
Total RWA (Off-Balance Sheet)		**-**	**3**	**-**	**771**	**4,281**	**-**	**5,055**

[0]/ Credit equivalent amount
[1]/ Credit risk-weighted assets
[2]/ Such as general guarantees of indebtedness and acceptances
[3]/ Such as performance bonds, bid bonds, warrantees and stand-by LCs related to particular transactions
[4]/ Arising from movement of goods, such as documentary credits collateralized by the underlying shipments, and commitments with an original maturity of up to one year

Schedule C

December 31, 2016 Counterparty Assets Banking Book (Php Mn)	Net Amount[0]/	Risk Weights 0%	20%	50%	100%	150%	Total CRWA [1]/
Derivative exposures:							
Exchange rate	-	-	-	-	-	-	-
Interest rate	-	-	-	-	-	-	-
Equity contracts	-	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-	-
Counterparty Exposures arising from Financial Assets [2]/							
Available-for-Sale	-	-	-	-	-	-	-
Held-to-Maturity	1,660	-	-	830	-	-	830
Total counterparty RWA [3]/ of derivative transactions		**-**	**-**	**830**	**-**	**-**	**830**

[0]/ Net Exposures After CRM (Uncovered Portion)
[1]/ Credit risk-weighted assets
[2]/ Sold/Lent under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements (Repo-style Transactions)
[3]/Risk-weighted assets

Schedule D

December 31, 2016 Counterparty Assets Trading Book (Php Mn)	CEA [0]/	Risk Weights 0%	20%	50%	100%	150%	Total CRWA [1]/
Derivative exposures:							
Exchange rate	3,709	-	52	1,383	685	-	2,119
Interest rate	1,711	-	32	767	16	-	816
Credit derivatives	780	-	-	390	-	-	390
Total counterparty RWA [2]/ of derivative transactions		**-**	**84**	**2,541**	**701**	**-**	**3,325**

December 31, 2015 Counterparty Assets Trading Book (Php Mn)	CEA [0]/	Risk Weights 0%	20%	50%	100%	150%	Total CRWA [1]/
Derivative exposures:							
Exchange rate	7,169	-	129	2,872	782	-	3,783
Interest rate	1,030	-	38	416	6	-	461
Credit derivatives	293	-	-	146	-	-	146
Total counterparty RWA [2]/ of derivative transactions		**-**	**167**	**3,434**	**788**	**-**	**4,389**

[0]/ Credit equivalent amount
[1]/ Credit risk-weighted assets
[2]/ Risk-weighted assets

Market risk-weighted assets. In terms of capital usage using the Basel standardized approach, total market risk-weighted assets stood at ₱14.6 billion as of end-2016, of which interest rate exposures accounted for more than half, followed by foreign exposures and equity exposures, respectively.

The table below presents the breakdown of the Bank's market risk-weighted assets for 2016 and 2015:

MARKET RWA (Php Mn)	AMOUNT	
	2016	2015
Using standardized approach:		
Interest rate exposures	9,919	14,873
Foreign exposures	4,411	8,119
Equity exposures	260	662
TOTAL MARKET RWA [0]/	**14,590**	**23,653**

[0]/ Risk-weighted assets

Operational risk-weighted assets. We currently use the Basel regulatory basic indicator approach to quantify operational risk-weighted assets, by using the historical total annual gross income as the main measure of risk. In 2016, the Bank's total operational risk-weighted assets stood at ₱102.87 billion.

The table below presents the Bank's operational risk-weighted assets for the years 2016 and 2015:

OPERATIONAL RWA (Php Mn)	AMOUNT	
	2016	2015
Gross income (a)	59,206	56,579
Capital requirement [1]/	8,881	8,487
Average capital requirement (b) [2]/	8,229	7,457
Adjusted capital charge (c) [3]/	10,287	9,321
TOTAL OPERATIONAL RWA [4]/	**102,868**	**93,208**

[0]/ Risk-weighted assets
[1]/ (a) multiplied by 15 percent
[2]/ Average of 15 percent of (a) for the past (3) years
[3]/ (b) multiplied by 125 percent
[4]/ (c) multiplied by factor 10