Risk management activities broadly take place simultaneously at the following different hierarchy levels.

a. Strategic Level: This level encompasses the functions performed by Senior Management, the Risk Management Committee (RMC) and the Board of Directors (BOD) such as ascertaining the Bank's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that overall risk remain within acceptable level and the reward compensate for the risk taken. This is part and parcel of the Business Planning and Budget Process.

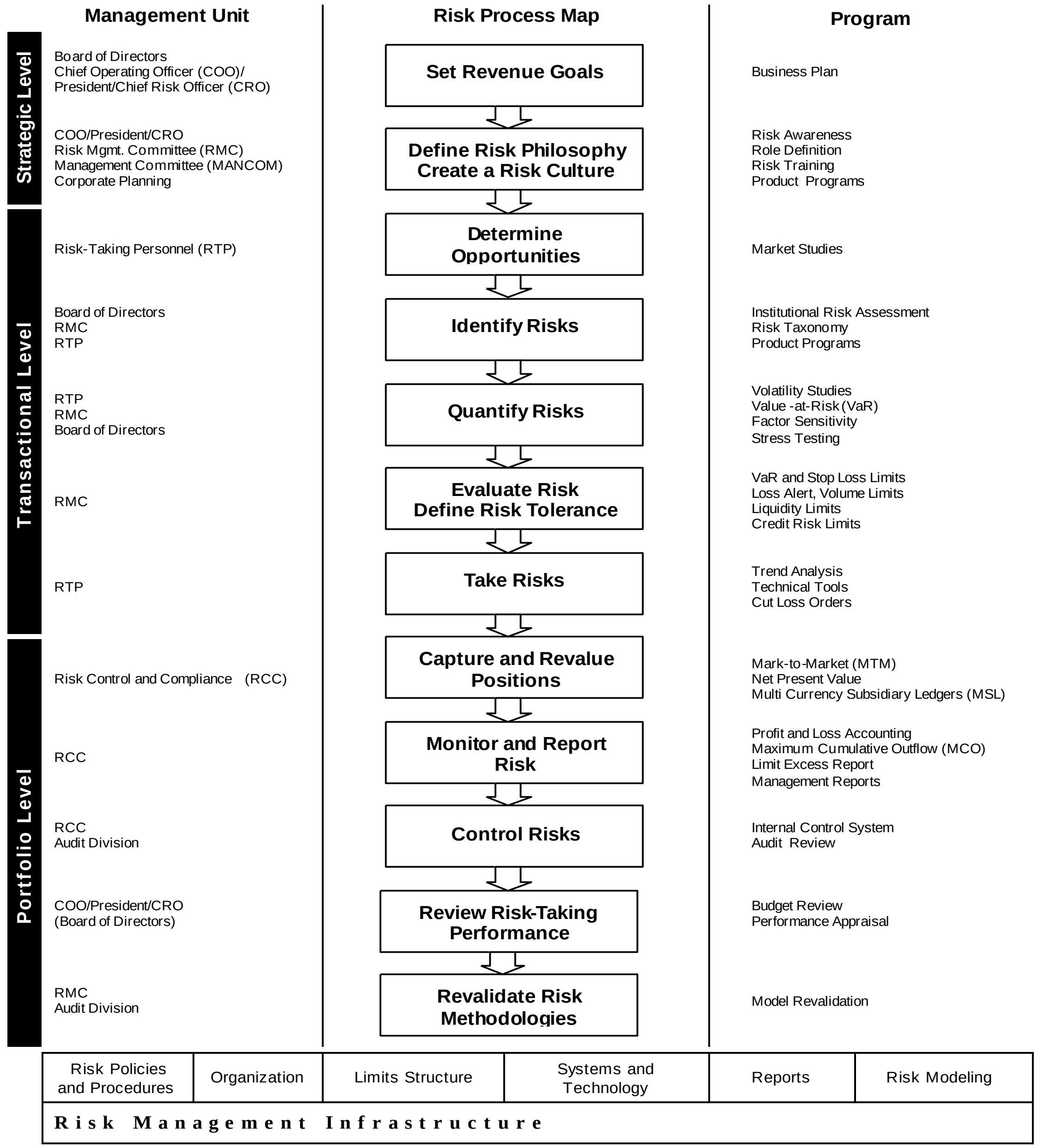
b. Portfolio Level: This level encompasses the monitoring of the risks within a business area or across business lines, to ensure that the risks taken are within the appetite of the Board of Directors.

c. Transactional Level: This level refers to the risk management activities performed by the Risk-Taking Personnel (i.e. individuals who take risks on the Bank's behalf such as front office and loan origination function) as they search for opportunities in the market and estimate the risks involved prior to the actual risk-taking.

Risk Management Framework

1. Risk Process Map

The Risk Process Map as depicted below traces out a complete and coherent risk management plan that is performed at three different levels: the strategic level, the transaction level and the portfolio level.



a. The first level provides a macro perspective. It starts with the basic reward/risk trade-off analysis where the business plan, through the budget process relates the amount of risks to be taken to achieve the desired revenue goals. The risk approval process should be consistent with the budget approval process.

b. The next stage does not originate from metrics and models but from a cultural change that defines the Bank's philosophy on risk. This process emanates from and is a prime responsibility of the Chief Operating Officer (COO)/President and the Board of Directors. They establish the risk culture and the risk management organization and incorporate the risk process as an essential part of the corporate strategic plan.

c. Institutionalizing a risk management culture requires organizational changes for the Bank. To start with, the Risk Oversight Committee (ROC) has been formalized to establish the risk culture and to set the tone for all institutional risk-related activities. Risk policies and procedures shall be formulated and approved by the Board. This requires a top-down process involving Senior Management to recognize the potential impact of risk events on the Bank's profitability.

d. By contrast, the second (transaction) level and the third (portfolio) level look at the specifics - the risk concepts, trading tools, analytical models, statistical methodologies, historical studies and market analysis which are requisites of a coherent risk management system.

e. These stages constitute the nature/essence of the risk process. It involves establishing core competencies of the Bank in recognizing, dimensioning, limiting, assessing, assuming, managing, controlling and monitoring risks. It starts with risk identification covering the entire spectrum of risk-sensitive positions and ends with assessing the risk-taking activities through performance metrics, which serve as rational basis for future business plans.

f. Specific tools and techniques are required to manage risks effectively. Management reports should be generated to provide the Risk Oversight Committee and Senior Management a snapshot of the overall risk positions of the Bank and the financial results if risk/reward exposures were to be realized at prevailing or at simulated market rates.

g. The investigation, analysis, and evaluation performed by the Risk-Taking Personnel (RTP), the Risk Management Division (RMD) and the Risk Control and Compliance (RCC) units constitute the essential day-to-day activities of risk management.