3. Portfolio level: Where the portfolio/total exposure are captured and evaluated by independent third party, other than risk taking personnel (i.e. RMG, IAG, and Compliance Office). The credit risk management of the entire loan portfolio is under the direct oversight of the Risk Oversight Committee (ROC).

Highlights for the risk management activities for 2015 under Credit Risk are as follows:

- Performed gap analysis on the requirements of the BSP 855 on the Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions. Worked towards the full compliance of the identified gaps before the set deadline on November 19, 2016.
- Conducted scenario analysis and stress testing thru Rapid Loan Portfolio Review of the possible impact of Decreasing Trend in Oil, Chinese Yuan Devaluation and effect of typhoon "Lando" to the Bank's non-performing loans and capital. Also performed hypothetical stress testing on large exposures, industries, consumer portfolio and effect of catastrophic/adverse events to few borrowers to assess their vulnerabilities and at which point will those exposures have an impact to the Bank.
- Stringent monitoring of the Expanded Real Estate Exposure and compliance to the Real Estate Stress Test. Computed the leeway in granting/investing in Real Estate and ensured that it was properly communicated to the business units.
- Robust monitoring of the large exposures and concentration risk and was involved in the review of existing limits. Identified, linked and started monitoring the large connected and economic interdependent accounts with the end view identifying contagion risk. The importance of monitoring concentration risks are evident in the BSP mandated monitoring of Real Estate Exposures. Further to this, concentration risk monitoring is also done for other industries, large individual and conglomerate exposures, migration of accounts along the CRR verticals, as well as RAC (risk asset classification) and Portfolio at Risk.
- Improved monitoring of the country risk exposures to ensure daily compliance with the limits and be able to quantify exposures to a particular country in cases of uncertainties, economic, social and political conditions.
- Worked on the necessary technical, legal, system and all other logistical requirements of R.A. 9510 or otherwise known as Credit Information System Act.
- Updated the credit risk manual and procedural guidelines to align with the latest regulatory and internal policies.
- Actively participated in the formulation/revision of credit policies, procedures, product manuals of the Bank as well as those from overseas branches and subsidiaries.
- Continued to conduct credit risk management seminars via the Bank's training programs and on the job training of risk officers from subsidiaries.
- Closely coordinated with the Business Intelligence Division for the completion of the single source data in the Enterprise Data Warehouse.

Trust Risk Management

Trust Banking Risk Management Process

The process of managing Trust Banking Group's (TBG) risks cuts across all types of risks. There are various types of risks that would impact its operations. Some risks are borne by the client while others are owned by TBG. Regardless of risk ownership, TBG designs risk management practices to ensure that exposures are well within its capacity to manage and risks taken are consistent with respective risk tolerances, whether from the perspective of TBG or of its clients. The objective of risk management is to promote efficiency in the administration and operation of the trust banking group; ensure adherence and conformity with the terms of the instrument or contract; and maintain absolute separation of property free from any conflict of interest.

Each trust transaction or activity is underpinned by the most basic fiduciary principle of fidelity to the client. Even if the risks are borne by the client, it is incumbent upon TBG to manage risks in their behalf as well to manage their own risks
Highlights for the risk management activities for 2015 in Transaction Banking Group Risk Management are as follows:

- Development of another strategic equity fund investment model l for one of the group's major clients, using years of historical data to continuously back test and simulate performance results, and present variations thereof. The fund was launched in July 2015. As of December 2015, total equity Assets under Management (AUM) for the specific model comprised 15% of the groups total common stock equities portfolio.
- Continued to service similar requirements for the strategic equity fund investment model launched in 2014 whose equity AUM increased by 155% at the end of the year.
- Together the AUM of the 2 strategic equity fund investment models makes up 48% of the group's total equity AUM of Php7.1 Billion. The group considers the growth coming from these 2 model funds as a major contributor to its total AUM and revenue increase for the year.
- Review and monitoring of existing strategic equity fund models with the objective of improving investment returns for TBG clients
- Coordination with concerned Trust Banking Group divisions and assisted them in the preparation/ conduct/ implementation of RCSA, Loss Event Reporting, Business Continuity Testing, Fire and Earthquake drills participation, Information Asset Register, Data Loss Prevention program, Portable Device registration, Information Security checks, among others
- Coordination with various units of the bank on initiatives that have impact on the group's compliance to new regulations and participation in consolidated reporting
- Active significant participation in the review of Trust Banking Group policies, procedural and product/ service manuals
- Conduct of fiduciary risk awareness trainings for new hires and management trainees of the bank, as well as fiduciary products training to colleagues outside of the business group
- Participation in the group's project team handling the implementation of a new system for TBG
- Initiation of process improvement initiatives within the group as a result of the analysis of the year's Loss Event Reports
- Improvement of risk reporting dynamics to the Risk Oversight Committee

Operational Risk Management

The main goals of Operational Risk Management are as follows:

- To develop a risk culture and increase risk awareness which facilitate an effective internal control process and continuously monitor its effectiveness.
- To create an organizational culture that places high priority on effective operational risk management and adherence to sound operating controls.
- To promote high ethical and integrity standards, and establish a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of risk awareness and internal control.

The bank adheres to the mandated definition of the Bangko Sentral ng Pilipinas (BSP) for operational risk under **BSP Cir. No. 900 dated December 18, 2015 on Supervision by Risk**: "Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs."

Operational risk is made up of a broad range of heterogeneous risks such as among others, fraud, physical damage, business disruption, transaction failures, legal and regulatory breaches as well as employee health and safety hazards. It may result in both direct and indirect financial losses (e.g. loss of business and market share) due to reputational damage.
The following primary areas of operational risks are the focus for risk management strategies under the ORM Framework: People, Process, System, and Products. It is under these areas that the monitoring tools and risk identification and assessments are organized.

Highlights of the risk management accomplishments and activities for the year 2015 under the Operational Risk Management are as follows:

- Enhanced the Operational Risk Management (ORM) Framework with the introduction of the following salient updates to the tools and processes:
  - One Risk and Control Self-Assessment (RCSA) for the Bank – rolled out a new RCSA template consolidating the assessment form for ICAAP, Operational Risk, Technology and Business Continuity into one big template to streamline the bank wide process in accomplishing the RCSA.
  - Revised the RCSA rating scale for Probability, Control Adequacy, Severity and Risk Level to align with BSP's 4-rating scale model.
  - Updated the LER Processes with the automation of the LER Reports consolidation via electronic upload as opposed to the previous manual data entry done