

3.3. Risk Oversight Committee (ROC)

The composition and functions of the Risk Oversight Committee are contained in its Amended Charter (Annex "C"). The charter was originally approved by the Board of Directors of the Bank under BR No. 4 dated December 17, 2004.

3.4. Executive Committee

The Executive Committee has to perform the functions and duties as the Board may delegate. The composition, powers and responsibilities of the Executive Committee are contained in its Charter (Annex "D").

3.5. Trust Committee

3.5.1. The Trust Committee, shall be composed of at least five (5) members including:

3.5.1.1. The President or any Senior Officer of the Bank;

3.5.1.2. The Trust Officer and Head of Trust Banking Group; and

3.5.1.3. The remaining Committee members, including the Chairperson, may be any of the following:

3.5.1.3.1. Non-Executive Directors or Independent Directors (as defined under Subsection X141.1 and 141.2 of MORB, respectively), who are both not part of the Audit Committee; or

3.5.1.3.2. Those considered as qualified "Independent Professionals" (as defined under Section 3 of BSP Circular No 766).

A Qualified Independent Professional shall refer to a person who:

- Is not a director/officer/employee of the bank during the last twelve (12) months counted from the date of committee membership;
- Is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any executive director or those involved in the day to day management of the bank's operations or officer of the bank; and
- Is not engaged or does not engage in any transactions with the Bank/NBFI whether by himself or with other persons or through a firm of which he is a partner, other than transactions which are conducted at arms-length and could not materially interfere with or influence the exercise of his judgment.

An Independent Professional may be appointed as a Trust Committee member of other Banks/NBFIs that belong to the same financial conglomerate.

In case of more than five (5) Trust Committee memberships, majority shall be composed of qualified Non-Executive members.

3.5.2. The Board of Directors shall duly note in the minutes the Trust Committee members and designate the Chairman thereof who shall be among the directors.

3.5.3. The functions of the Trust Committee are contained in its Amended Charter (Annex "E").

3.5.4. The Trust Committee shall act within the sphere of authority as may be provided in the Amended By-laws and/or as may be delegated by the Board of Directors, such as but not limited to the following:



CHARTER
RISK OVERSIGHT COMMITTEE (ROC)
June 2016

I. Mission

The PNB Board Risk Oversight Committee is created by the PNB Board of Directors to assist the board to oversee the risk profile and approves the risk management framework of PNB and its related allied subsidiaries and affiliates. It is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management.

II. Composition of the Committee

- a) The Committee shall be composed of at least three (3) members of the Board with at least one (1) independent director as Chairman and two (2) non-executive directors.

The members shall possess a range of expertise as well as adequate knowledge of the bank's risk exposures. They should also meet the requirements of the Securities and Exchange Commission (SEC), the Bangko Sentral ng Pilipinas (BSP) and other applicable laws and regulations.

- b) Regular resource persons shall be composed of the President, the Chief Operating Officer, the Sector Heads, Chief Audit Executive, Chief Compliance Officer, Chief Technology Officer, the Chief Legal Counsel (during discussions where legal risks are concerned or as necessary), Chief Risk Officer, and concerned bank officers who have first-hand knowledge or expertise in the scheduled agenda of the ROC meeting.
- c) The presence of the majority of the members of the committee less 1 member shall constitute a quorum; but the vote of the majority of the quorum which in no case is less than 2 members is required to approve any act in all the meetings of the committee.
- d) When there is a lack of quorum due to the absence of other members, an alternate member from among the Board Members may be appointed to attend a particular meeting and automatically sit as a voting member.
- e) Subject to Section 35 of the Corporation Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of Board Risk Oversight Committee or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

III. Authority

ROC has the authority to:

1. Direct management to submit regular reports on current risk exposures on credit, market, interest rate, liquidity, operational, legal, compliance, strategic, reputation, technology and other risks as well as to address such risks;
2. Approve or endorse for aboard approval the proposed risk policies and procedures; and

3. Access to all bank's records and any officer or employee of the bank, as it deems necessary.

Note: Management is responsible for the preparation, presentation and integrity of information and all matters presented to the ROC. Likewise, management is responsible for implementing and maintaining the risk policies set by ROC to identify, assess, measure, manage and control risks.

IV. BSP Mandated Functions

1. Identify and evaluate exposures - ROC shall assess the probability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are most likely to occur (high probability) and are costly when they happen (high severity);
2. Develop Risk Management Strategies – ROC shall develop a written plan defining the strategies for managing and controlling the major risks. IT shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real;
3. Oversee the implementation of the risk management plan – ROC shall conduct regular discussions on the bank's risk current exposures based on regular management reports and assess how the concerned units of offices reduced these risks; and
4. Review and revise the plan as needed – ROC shall evaluate the risk management plan to ensure its continued relevancy, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood or harm or loss.

V. Duties and Responsibilities

Risk Category	Duties and Responsibilities	Support Office
Operational Risk	1. Approve the basic structure of the framework for managing operational risk (i.e. arising from process, system, people, and external events), which includes legal risk.	Operations & Information Technology Security Division, RMG
Legal Risk	2. Mandated to be aware of the major aspects of the Bank's operational & legal risks, it shall: <ul style="list-style-type: none"> ▪ Review, on continuing basis, operational & legal risk exposures and loss events by major business lines; and ▪ Oversee the effective resolution, management and control of the Bank's operational & legal risks. 3. Assume an oversight role thru the Chief Risk Officer and Chief Audit Executive with respect to Management's responsibility for maintaining and implementing effective policies and procedures for managing operational risk in all of the Bank's products, activities, processes and systems; and thru the Chief Legal Counsel with respect to legal risk.	

Risk Category	Duties and Responsibilities	Support Office
Strategic Risk and Financial Risk	<p>Assume an oversight role thru the Head of Corporate Planning Division in monitoring the compatibility of the Bank's strategic goals, business strategies developed, resources deployed and quality of implementation.</p> <p>Review & discuss with Management the performance vs. target of major business units. ROC may request Management for an explanation on unfavorable variances and direct management to change certain policies and strategies.</p> <p>Assess how the Bank generates income and analyze the sensitivity of the Bank's earnings given a set of business conditions.</p>	Corporate Planning Division (this is reported under the Management Profitability Report on a quarterly basis under the joint Corporate Governance Committee, Executive Committee and Risk Oversight Committee)
Reputation Risk	Assume an oversight role thru the Service Quality Officer in ensuring the abundance of caution in dealing with customers and the community; as well as the Bank's responsiveness in addressing negative public opinion.	Service Quality Group & Corporate Marketing & Communications Division
Technology Risk	<p>Have the knowledge and skills necessary to understand and effectively manage technology-related risks.</p> <p>Ensure that:</p> <ul style="list-style-type: none"> a) An effective technology planning process exists, b) Technology is implemented properly with appropriate controls, and c) Measurement & monitoring efforts effectively identify ways to manage risk exposure. <p>Review, recommend for Board approval, and monitor technology projects that may have a significant impact on the bank's operations, earnings or capital.</p> <p>Establish clearly defined measurement objectives and conduct periodic reviews to ensure that goals and standards established by management are met.</p>	Operations & Information Technology Security Division, RMG together with IT Governance Management Committee.
Compliance Risk	Assume an oversight role thru the Compliance Officer with respect to compliance with laws, rules, regulations, prescribed practices, internal policies and procedures or ethical standards.	Compliance Division (this is prescribed under the Board Audit & Compliance Committee monthly)
Trust Risk	Assumes the oversight role for the identification, measurement, monitoring and control of operations of the Trust Banking Group. This is a specialized function that is distinct from Trust Banking Operations.	Trust Credit & Risk Unit, RMG

Risk Category	Duties and Responsibilities	Support Office
Credit Risk	Oversee the bank wide management of the credit risk internal in the entire portfolio and ensure the adequacy of provisions. Ensure that the following sound and best practices in credit risk management are in place and conduct periodic review of the same. 1. Policy & Infrastructure; 2. Sound Credit Granting Process; 3. System for Administration & Monitoring of Exposure; 4. Portfolio Management; 5. Credit Review; 6. Review the adequacy of valuation reserves; and 7. Work out system for managing problem credits.	Credit Risk & Basel Implementation Division, RMG
Market Risk Interest Rate Risk Liquidity Risk	1. Recommended for Board approval market risk policies and risk limits for all trading and balance sheet-related market risks and for investment securities activities; 2. Approve the methodology, models and assumptions used to measure market and interest rate risks; and 3. Review compliance with established limits.	Market and ALM Division, RMG
Others	Perform such other functions as may be mandated by the Board and regulatory bodies relevant to risk management.	Risk Management Group

VI. Frequency of Meeting

The ROC shall conduct regular meetings at least monthly, to discuss current risks exposures based on Management reports. Further, it may hold special meetings as it deems necessary.

ROC shall report regularly to the Board of Directors the Bank's over-all risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.

VII. Secretariat

The Risk Management Group (RMG) shall act as the Secretariat of the ROC who shall maintain the minutes of the ROC meetings and other records of the Committee and ensure that ROC directives are being complied.

ROC shall ensure that the RMC Secretariat (i.e. RMG) has adequate resources at its disposal to effectively discharge its functions.

VII. Review of the Charter

ROC shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.