

8. Estimate of Amount Spent for Research and Development Activities

The Bank provides adequate budget for the development of new products and services which includes hardware and system development, continuous education and market research. Estimated amount spent for 2015, 2014 and 2013 totaled ₱372.7 million, ₱373.4 million and ₱363.0 million, respectively.

9. Number of Employees

The total number of employees of the Bank as of December 31, 2015 is 8,349 wherein 3,582 are classified as bank officers and 4,620 as rank-and-file employees, broken down as follows:

Officers:	Total
Vice President and up	147
Assistant Manager to Senior Assistant Vice President	3,582
Rank-and-File	4,620
Total	8,349

The Bank shall continue to pursue selective and purposive hiring based on business requirements. The Bank has embarked on a number of initiatives to improve operational efficiency. Foremost among these initiatives are the upgrade of its Systematics core banking system and the new branch banking system which are expected to bring about additional reduction in the number of employees in the support group upon full implementation.

With regard to the Collective Bargaining Agreement (CBA), the Bank's regular rank-and-file employees are represented by two (2) existing unions under the merged bank, namely, PNB Employees Union (PNBEU) and Philnabank Employees Association (PEMA).

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the unions as harmonious and mutually beneficial.

10. Risk Management

The Bank places a high priority on risk management and has taken concrete steps to refine its framework for risk management, including the identification and control of the risks associated with its operational activities.

A sound, robust and effective enterprise risk management system coupled with global best practices were recognized as a necessity and are the prime responsibility of the Board and senior management. The approach to risk is founded on strong corporate governance practices that are intended to strengthen the enterprise risk management of PNB, while positioning PNB Group to manage the changing regulatory environment in an effective and efficient manner.

Strong independent oversight has been established at all levels within the group. The bank's Board of Directors has delegated specific responsibilities to various board committees which are integral to the PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively. There are nine (9) Board Sub-Committees designated by the PNB Board of Directors to provide oversight and strengthen the functions accordingly. Please see diagram below.

Board of Directors	Board Policy Committee (BPC) ¹
	Executive Committee (ExCom) ¹
	Corporate Governance Committee
	Board Audit and Compliance Committee
	Risk Oversight Committee
	Trust Committee
	Board Oversight – Domestic & Foreign Offices/Subs Committee (BDFOS)
	Board Oversight Related Party Transaction Committee (BRPTC)
	Board Information Technology Governance Committee (BITGC)

Figure 1: Board Level Committees

Note:

¹ Board Committee changes effected in Jan 2016. Board ICAAP Steering Committee functions are now subsumed into the Board Policy Committee. Board Credit Committee has been renamed to Executive Committee with expanded functions.

While the first line of defense in risk management lies primarily on the bank’s risk taking units as well as the bank’s support units, the Risk Management Group is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained.

The risk management framework of the Bank is under the direct oversight of the Chief Risk Officer (CRO) who is directly reporting to the Risk Oversight Committee. The CRO is supported by Division Heads with specialized risk management functions to ensure that a robust organization is maintained. The Risk Management Group is independent from the business lines and organized into the following divisions: Credit Risk Division, BASEL and ICAAP Implementation Division, Market & ALM Division, Operational Risk Division, Information Security / Technology Risk (IS/TR) Management, Trust and Fiduciary Risk Division and Business Intelligence & Warehouse Division. IS/TR is also responsible for overseeing and monitoring the group’s business continuity program.

Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These board approved policies, clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks.

The bank’s governance policies also provide for the validation, audits & compliance testing, to measure the effectiveness and suitability of the risk management structure. RMG also functions as the Secretariat to the Risk Oversight Committee which meets monthly to discuss the immediate previous month’s total risk profile according to the material risks defined by the bank in its ICAAP document.

Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

The risk management system and the directors’ criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the Business Units and presented to the Risk Oversight Committee for endorsement for final Board Approval.

In line with the integration of the BSP required ICAAP (internal capital adequacy assessment process) and risk management processes, PNB currently monitors 10 Material Risks (three for Pillar 1 and seven for Pillar 2). These material risks are as follows:

Pillar 1 Risks:

1. Credit Risk (includes Credit Concentration, Counterparty and Country Risks)
2. Market Risk
3. Operational Risk