

	<p>b) Approval of risk manuals</p> <p>c) Review and notation of current risk exposures via the risk dashboards.</p>	<p>a) Identify and evaluate exposures – The 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).</p> <p>b) Develop risk management strategies – The 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.</p> <p>c) Oversee the implementation of the risk management plan – the ROC shall conduct regular discussions on the Bank’s current risk exposures based on regular management reports and assess how the concerned units or offices reduced these risks.</p> <p>d) Review and revise the plan as needed – The ROC shall evaluate the risk management plan to ensure its continued relevance, 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.</p>
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G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company:

Internal control system is a process designed and effected by the Board of Directors, Senior Management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements, and the organization's policies and procedures. The internal control system shall embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate:

The Bank’s overall risk management system, internal control systems and compliance with policies, procedures and regulations has remained satisfactory. PNB has an integrated bank-wide risk management process of comprehensive identification, assessment, mitigation and monitoring of all relevant material risks exposures of the Bank through individual unit's Risk and Control Self-Assessment (RCSA) process. The RCSA is an integral component of Enterprise Risk Management (ERM) and the Internal Capital Adequacy Assessment Process (ICAAP). The Board of Directors and senior management are consistent and diligent in the discharge of their oversight and governance functions over Bank’s internal control system through regular monitoring of major issues of the Bank operations. Periodically, appropriate policies and procedures are issued to strengthen controls versus changes in the economic and regulatory environment.

Under the good governance of both the Board and the President/Chief Executive Officer and with the strong support of senior management to oversee the establishment, administration, and assessment of the Bank’s system of risk management and control processes, PNB’s internal control environment has been effective and dynamic to ensure the attainment of its business objectives.

(c) Period covered by the review:

One (1) year.

(d) How often internal controls are reviewed and the directors’ criteria for assessing the effectiveness of the internal control system:

Annually. The criteria for assessing the effectiveness of internal control system include, among others, the results of internal, external and BSP regulatory examinations, occurrence of fraud/irregularity and RCSA.

(e) Where no review was conducted during the year, an explanation why not. (updated – 2015)

Not applicable. Review was conducted in 2015.

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
	<p>The Internal Audit Group (IAG) is headed by the Chief Audit Executive (CAE) reporting directly to the Board Audit and Compliance Committee (BACC). The Internal Audit functions include assessment of internal controls and the recommendations to implement constructive measures to ensure adequate control. It is also tasked to support the Bank’s risk management activities and corporate governance initiatives. The functions and responsibilities of the Internal Audit Group and the Chief Audit Executive is covered by the audit charter and Internal Audit Manual which is revised and approved by the Board annually.</p> <p>The major functions that IAG performs are:</p> <ol style="list-style-type: none"> 1. Develop an audit charter, approved by both senior management and the BACC, for the internal auditing activity. 2. Develop, along with management, an organization model that can be used to map major processes/operations for the purpose of identifying the organization’s auditable units. 3. Develop a risk assessment methodology for the auditable entities identified in the model of major processes/ operations. 4. Develop an audit plan based on the risk assessment and requests from management and get it approved by the Board. 5. Work with senior management and the BACC to establish a reporting relationship that will ensure that audit recommendations receive appropriate attention. 6. Establish a Quality Assurance and Improvement Program (QAIP) for the internal auditing activity that provides assurance that the internal auditing activity: (a) performs in accordance with its charter; (b) adheres to the standards and the Code of Ethics; (c) operates in an effective and efficient manner; and (d) is perceived by the Board and management as adding value and improving an organization’s operations. 7. The internal audit function shall be established centrally by the parent bank (PNB) and shall have authority over the group (PNB and its Subsidiaries). PNB IAG shall define the internal audit strategies, methodology and scope for PNB and its BSP-supervised domestic and overseas subsidiaries and branches. 8. For BSP-supervised subsidiaries with established internal audit functions, the internal audit of said entities shall closely coordinate with PNB IAG to ensure consistent adoption of audit methodologies and alignment of strategies and scope. 	In-house	Dioscoro Teodorico L. Lim	Functionally reporting to the Board through the BACC and administratively to the President