

# RISK OVERSIGHT COMMITTEE CHARTER

## I. PURPOSE

The Risk Oversight Committee has been established by the Board of Directors to assist it in the effective discharge of its function in overseeing the risk management program of the Bank, its subsidiaries and its trust unit.

An effective risk management program is a critical component for the safe and sound operation of the Bank. It is a key element in achieving PBCom's goals and objectives, optimizing growth and capital while minimizing losses to the Bank.

## II. DUTIES AND RESPONSIBILITIES

The ROC shall advise the board of directors on the Bank's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the Bank. The ROC shall:

1. *Oversee the risk management framework.* The committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.
2. *Oversee the adherence to risk appetite.* The committee shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.
3. *Oversee the risk management function.* The committee shall be responsible for the appointment/selection, remuneration, and dismissal of the Chief Risk Officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk taking activities of the Bank.

## III. COMPOSITION AND CHAIRPERSON

### A. Membership

1. The Board of Directors shall appoint the members of the Risk Oversight Committee;
2. The Committee shall be composed of at least three (3) members of the Board of Directors, majority of whom shall be independent directors, including the chairperson. The Risk Oversight Committee shall possess a range of expertise and adequate knowledge on risk management issues and practices. It shall have access to independent experts to assist it in discharging its responsibilities.

3. The ROC's chairperson shall not be the chairperson of the Board of Directors, or any other board-level committee.
4. The Secretary of the Committee shall be the Chief Risk Officer.
- B. Meeting Arrangements
  1. The Committee shall meet every month and at such other times it deems necessary;
  2. A quorum shall constitute more than half the number of members of the Risk Oversight Committee;
  3. A resolution shall constitute the majority votes by committee members present during the meeting;
  4. The Risk Oversight Committee may invite other officers / personnel responsible for any matter related to the meeting agenda to provide representation in the meeting;
  5. The Secretary of the Risk Oversight Committee shall arrange the meeting schedule and prepare the agenda. The Secretary shall send out the meeting agenda, risk management reports, minutes of previous meeting, and other necessary documents to all committee members at least three working days before the scheduled ROC meeting for the members to review the necessary details.

#### **IV. SPECIFIC DUTIES AND RESPONSIBILITIES**

The Risk Oversight Committee has the responsibility to:

1. Review and recommend for approval by the Board of Directors PBCOM's written risk management program to identify, measure, monitor and control the following risks:
  - Credit
  - Market
  - Interest Rate
  - Liquidity
  - Operational
  - Compliance
  - Strategic
  - Reputation
2. Review reports on risk exposures, recommend necessary actions and communicate risk management plan to concerned segment / group to address or reduce the risks;
3. Report regularly to the Board of Directors the Bank's overall risk exposure, actions taken to reduce the risks and recommend further action or plans as necessary;

4. Report to the Board of Directors significant matters concerning risk exposures of the Bank including any BSP examination findings on unsafe and unsound banking practices; and actions taken to manage those risks;
5. Oversee the system of limits to discretionary authority that the Board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached;
6. Develop and approve the bank's risk appetite framework including risk tolerance levels and monitoring system to ensure that limits set are observed and that immediate corrective actions are taken whenever limits are breached;
7. Evaluate the magnitude, direction and distribution of risks across the Bank and its subsidiaries and approve the bankwide risk profile;
8. Oversee the bank's risk and capital adequacy assessment process;
9. Approve and oversee the implementation of policies and procedures relating to the management of risks throughout the institution, including its trust operations.
10. Evaluate and approve the bank's risk management system framework.
11. Create and promote a risk culture that requires and encourages the highest standards of ethical behavior by risk managers and risk-taking personnel.
12. Assess the performance of the Chief Risk Officer (CRO) and the risk management function on an annual basis.

## **V. ANNUAL EVALUATION**

The committee shall review and re-assess the adequacy of this charter annually and recommend refinements, as necessary, to the Board of Directors for approval.

# ENTERPRISE RISK MANAGEMENT/ICAAP GROUP CHARTER<sup>1</sup>

This charter describes the mission, organizational position, organizational structure, duties and responsibilities, authority, qualifications of ERMG personnel, resources and accountability of the Enterprise Risk Management/ICAAP Group in Philippine Bank of Communications (PBCom).

## I. MISSION

The Enterprise Risk Management/ICAAP Group (ERMG) of Philippine Bank of Communications (PBCom) serves the Bank's Board of Directors and Management by assisting the Bank accomplish its objectives by bringing a systematic and disciplined approach to promoting risk management practices consistent with the type and complexity of operation of the Bank **and its subsidiaries. It shall assist** The management of risk is a direct responsibility of the business and support units. Enterprise Risk Management/ICAAP Group (ERMG) provides assistance to the **Bank's units and subsidiaries** for them to effectively:

- A. Identify and assess risks associated with their objectives;
- B. Define controls to address the identified risks; and,
- C. Set up monitoring mechanism to ensure that controls are effectively addressing the risks.

ERMG shall provide advice and consulting activities to progressively improve the risk management processes and practices in the units and in the Bank as a whole.

## II. ORGANIZATIONAL POSITION

ERMG is an independent unit administratively under the Office of the President and CEO with direct functional/reporting responsibility to the Board Risk Oversight Committee (ROC) in frequency and scope as the Committee shall require.

The Chief Risk Officer (CRO) shall have direct access to the Board of Directors and the Risk Oversight Committee without any impediment.

The Chief Risk Officer shall be appointed and replaced with prior approval of the Board of Directors. XX

**The appointment , dismissal and other changes to the CRO position shall have prior approval of the Board of Directors.**

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<sup>1</sup> Approved by the Board on June 4, 2013. Renamed Enterprise Risk Management Group.

### III. DUTIES AND RESPONSIBILITIES

- A. The Enterprise Risk Management/ICAAP Group is responsible for overseeing the risk-taking activities across the bank, as well as in evaluating whether these remain consistent with the Bank's risk-appetite and strategic direction.

It shall ensure that the risk governance framework remain appropriate relative to the complexity of risk-taking activities of the Bank.

It shall be responsible for identifying , measuring , monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense.

1. Identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;
2. Monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the bank's internal capital adequacy assessment on an on-going basis;
3. Monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
4. Reporting on a regular basis to the Board of Directors and to senior management the results of assessment and monitoring.

B. Specific Duties

1. Develop the risk management program for the bank and its Trust unit.
2. Recommend Risk Appetite Framework including risk tolerance levels aligned with the Bank's strategic goals.
3. Design Enterprise Risk Management Framework aligned with leading practice.
4. Recommend policies and procedures relating to the management of risks throughout the institution, including the Bank's Trust operations. These shall include:
  - a. A comprehensive risk management approach;
  - b. A detailed structure of limits, guidelines and other parameters used to govern risk-taking;
  - c. A clear delineation of lines of responsibilities for managing risk;
  - d. An adequate system for measuring risk;
  - e. Effective internal controls and a comprehensive risk-reporting process.
5. Identify, analyze and measure risks from the Bank's trading, position-taking, lending, borrowing and other transactional activities.

6. Conduct stress tests on the Bank's portfolios that are to be documented and reported to the Risk Oversight Committee and the Board of Directors.
7. Develop and implement risk control assessment tools.
8. Provide reports to the Risk Oversight Committee and Board of Directors on the bank's Risk Profile and its material risk exposures.
9. Enable the Internal Capital Adequacy Assessment Process (ICAAP) in the Bank.

10. Monitor and report compliance with approved limits.
11. Set product development guidelines and include new exposures within the current framework.
12. Develop training programs, conduct trainings and undertake other initiatives geared towards promoting risk consciousness of employees.
13. Communicate formally and informally to the Risk Oversight Committee any material information relative to the discharge of its function.

#### **IV. AUTHORITY CHIEF RISK OFFICER**

The Chief Risk Officer (CRO) shall have sufficient stature, authority and seniority within the bank. He / She shall be independent from Executive functions and business line responsibilities, operations, and revenue-generating functions, and shall have access to such information as he deems necessary to form his judgment. The CRO shall have direct access to the BOD and the ROC without any impediment.

##### **a. Qualifications**

The CRO should have the knowledge and skills necessary to oversee the Bank's risk management activities. The CRO should have the ability to interpret and articulate risk in a clear and understandable manner and, without compromising his/her independence, can engage in a constructive dialogue with the BOD, Pres. & CEO, and other senior management on key risk issues.

##### **b. Duties and Responsibilities**

The CRO shall be responsible for overseeing the risk management function and shall support the BOD in the development of the risk appetite RAS of the Bank and for translating the risk appetite into a risk limit structure. The CRO shall propose enhancements to risk management policies, processes, and systems to ensure that the Bank risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

**The Chief Risk Officer shall have sufficient stature, authority and seniority within the bank. The officers of ERMG shall have unrestricted access to all levels of Management, any functions,**

documents and records, property and personnel considered necessary for the performance of its functions.

## **V. QUALIFICATIONS OF ERMG PERSONNEL**

Risk Management personnel must be fit and proper for the particular position he/she shall hold and must possess integrity/probity, competence, education, diligence and experience/training. In particular, risk management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the bank's activities.

ERMG Personnel should collectively have knowledge and skills commensurate with the Bank's business activities and risk exposures.

The Chief Risk Officer shall have the ability without compromising his/her independence, to engage in discussions with the Board of Directors, Chief Executive Officer and other senior management on key risk issues and to access such information as he/she deems necessary to form his or her judgment. The CRO shall meet with the Board of Directors/ Risk Oversight Committee on a regular basis and such meetings shall be duly minuted and adequately documented.

## **VI. RESOURCES**

The Enterprise Risk Management Group shall be given adequate resources to enable it to effectively perform its functions. The risk management function shall be afforded with adequate personnel, access to information technology systems and systems development resources, and support and access to internal information.

## **VII. ACCOUNTABILITY**

ERMG shall submit its annual plans and programs to the President and Risk Oversight Committee and shall be accountable to the Risk Oversight Committee in the performance of such plans/programs.