

ANNEX A

RISK OVERSIGHT COMMITTEE (ROC) CHARTER

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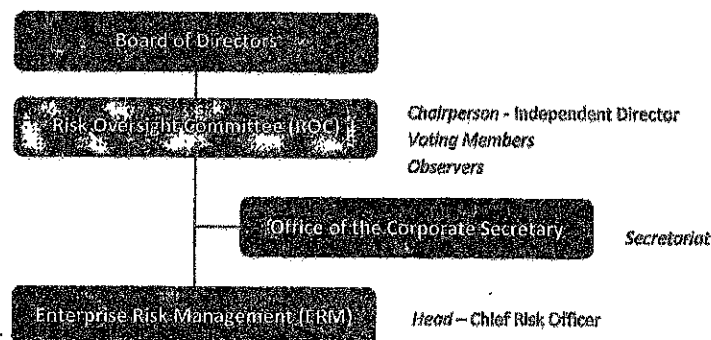
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I. Mandate/ Mission

The Board of Directors establishes the Risk Oversight Committee (ROC), pursuant to the Bangko Sentral ng Pilipinas (BSP) regulations on corporate governance and risk management. To increase efficiency and allow deeper focus in risk governance and management, the ROC provides a forum for cooperation and ideal venue for discussion among those charged with the governance and risk management functions. Its mandate is to act as an instrument and take an active role in the development of enhanced risk awareness and sensitivity in doing business aligned with the requirements of the BSP and Basel. The impetus for establishing a culture of risk awareness and sensitivity within the organization must be anchored more on it being a business decision rather than mere regulatory compliance.

The ROC seeks to achieve its mandate by providing oversight function which shall ensure a strong risk governance framework. It oversees the adequacy and effectiveness of existing risk policies, procedures and controls. Through the Enterprise Risk Management (ERM) Group, it identifies and evaluates risk exposure and assesses the probability of each risk becoming reality.

II. Organization



The diagram briefly presents the parties relevant to the ROC holding functional relationships, as follows:

1. **Board of Directors** – the ROC shall report to the Board the issues and developments that may give rise to risk exposures.
2. **Enterprise Risk Management (ERM)** – the ROC delegates authority to the Chief Risk Officer for the management of the Bank's risk profile. ERM presents to the ROC matters pertinent to risk-taking activities of the Bank for discussion and securing of the necessary action, such as approval by the ROC itself or for its endorsement to the Board for final approval, for notation or information.
3. **Office of the Corporate Secretary (OCS)** – any matters relating to the ROC shall be coursed through the OCS as the Secretariat of the Committee.

III. Responsibilities¹

The Risk Oversight Committee

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 exposure of the Bank.

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 adherence to risk appetite.** The Committee shall take an active role in defining the risk appetite and ensuring its alignment with the Bank's strategic, capital and financial plans and compensation practices. It shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction as a development bank and overall risk appetite. Similarly, the ROC 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.
4. **Establish a robust risk governance structure.** The ROC shall be primarily responsible for approving the risk governance framework and the Internal Capital Adequacy Assessment Process (ICAAP), subject to the final approval of the Board of Directors. The ROC shall also review and approve policies pertaining or in relation to risk management. Moreover, the ROC shall oversee Management's

¹ BSP MORB Subsec. X144.2 a.; BCBS d328 Corporate Governance Principles for Banks

implementation thereof. The Committee shall also assess performance and resource allocation in view of the risks associated to business initiatives.

5. **Ensure Independence of ERM.** The ROC shall provide adequate separation of duties in the risk management process to avoid potential conflicts of interest. In this light, the Committee shall see to it that risk measurement, monitoring and control functions are sufficiently independent from position-taking functions.
6. **Update the Board.** The ROC has the duty of updating the Board of any issues and updates presented to the Committee. The ROC may endorse reports and decisions to the Board of Directors, if necessary, for the necessary action to be taken.

In the effective discharge of the Committee's duties, it shall have access to independent experts. More importantly, the ROC is vested with functional authority over ERM and is specifically responsible for the following:

1. Appointment of the Chief Risk Officer (CRO) subject to the approval of the Board of Directors and the confirming authority of the BSP Supervisory and Examination Sector Committee.
2. Review and approval the performance and compensation of the CRO.
3. Set up and review of ERM's structure, operating budget, and the professional development program for the ERM personnel.

The Chairperson of the ROC

The Chairperson plays a crucial role in the effective functioning of the Committee. He/She shall, at the minimum, be able to do the following:

1. Ensure that Committee decisions are taken on a sound and well-informed basis.
2. Encourage and promote critical discussion and ensure that dissenting views can be freely expressed and discussed within the decision-making process.²

The Vice Chairperson of the ROC

The Vice Chairperson shall perform chairperson responsibilities in the absence of the Chairperson.

The Enterprise Risk Management (ERM)

The initial responsibility in identifying and facilitating the activities needed by the ROC to undertake its risk management and oversight function rests with Enterprise Risk Management. The risk management function³ shall be responsible for the following:

1. Oversee the risk-taking activities across the Bank.
2. Evaluate whether these remain consistent with the Bank's risk appetite and strategic direction.

² BCSBS d328 Corporate Governance Principles for Banks

³ BSP MORB Subsection X174.1

3. Ensure that the risk governance framework remains appropriate relative to the complexity of risk taking activities of the Bank, and properly and adequately observed;
4. Identify, measure, monitor and report risk on an enterprise-wide basis as part of the second line of defense.
5. Report directly and regularly to the ROC or the Board of Directors, as applicable.
6. Inform, update, and establish common understanding for the ROC.

The Chief Risk Officer (CRO)

The ROC shall appoint a CRO to head the risk management function. The appointment, dismissal and other changes to the CRO or its equivalent position shall have prior approval of the Board of Directors. In cases, when the CRO will be replaced, the Bank shall report the same to the appropriate supervising department of the BSP within five (5) days after it is approved by the Board of Directors. Duties and responsibilities of the CRO are explicitly stated as follows:

1. Serve on a full-time basis and functionally meet/report to the Committee.
2. Oversee the risk management function and support the Board of Directors in the development of the risk appetite and risk appetite statement (RAS) of the Bank and for translating the risk appetite into a risk limits structure.
3. Propose enhancements to risk management policies, processes, and systems to ensure that the Bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

As part of the delegated authority given to the CRO by the Committee, the CRO shall, at the minimum, be given the following:

1. Sufficient stature, authority, and seniority within the Bank.
2. Independence from executive functions and business line responsibilities, operations and revenue-generating functions.
3. Access to such information as he/she deems necessary to form his/her judgment.
4. Direct access to the Board of Directors and the Risk Oversight Committee without any impediment.

The CRO shall at least possess the following qualifications to effectively perform the key function of the position:

1. Knowledge and skills necessary to oversee the Bank's risk management activities. This will be assessed based on the ability of the CRO to influence decisions that affect the Bank's exposure to risk.
2. Ability to interpret and articulate risk in a clear and understandable manner, provided that this shall not compromise his/her independence.
3. Ability to engage in a constructive dialogue with the Board of Directors, President and Chief Executive Officer, and other Senior Management on key risk issues.⁴

⁴ BSP MORB Subsection X174.2

The Secretariat

The Office of the Corporate Secretary (OCS) shall act as the Secretariat of the ROC. Duties and responsibilities of the Secretariat are as follows:

1. Assist the ROC Chairman and Members in establishing the agenda for meetings.
2. Ensure that relevant materials are provided in advance, if possible.
3. Draft the minutes for all ROC meetings and ensure that decisions and key discussions are duly documented.
4. Establish a system of documents management with the required level of due diligence on information security.

IV. Committee Composition

ROC Members:

- Chairperson
- Vice Chairperson
- Member/s

Observers:

- The President & Chief Executive Officer
- Other Members of the Board of Directors
- The Head, Financial Resource Sector
- The Head, Operations Sector
- The Head, Legal Services Group
- The Head, Internal Audit Group
- The Head, Strategic Planning Group
- The Head, Treasury Group
- The Chief Compliance Officer
- The Head, Development Lending Sector*

ERM:**

- The Chief Risk Officer
- The Head, Credit Risk Management Department
- The Head, Market Risk Management Department
- The Head, Operational Risk Management Department

* shall include the Head of Development Lending Sector upon effectivity of the Bank's reorganization.

** shall include the Head of Information Security Risk Management Department upon effectivity of the Bank's reorganization.

Qualification

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 Members shall possess a range of expertise and adequate knowledge on risk management issues and practices, and, preferably a background in finance and investments.

Chairperson. The ROC Chairperson shall be an independent director and not the Chairperson of the Board of Directors, or any other Board-level Committee.⁵

Voting Members. Key to the decision-making process, Voting Members are Directors with the power to vote in ROC proceedings by virtue of their membership. However, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in the Committee without prior approval of the Monetary Board⁶.

Observers. The President and CEO, all other Directors, the Heads of Financial Resource Sector, Operations Sector, Legal Services Group, Internal Audit Group, Strategic Planning Group, Treasury Group and the Chief Compliance Officer shall act as Observers or Ex-Officio Members. Members thereof must possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur and to provide useful inputs to assist the Committee in decision-making.

Appointment and Changes in the Composition

Members of the Committee are appointed by the Board of Directors, whose duty is to promote objectivity by appointing independent directors and non-executive directors to the greatest extent possible. The Committee shall make recommendations to the Board of Directors for changes in ROC membership. Upon Board approval of the Committee's recommendation, the Secretariat shall publish the revised ROC composition and update the ROC Charter accordingly. The Members of the Committee shall serve coterminous with the term of the incumbent directors.

V. Committee Procedures

Regular Meetings. The Committee shall meet at least once a month or as often as the need arises.

Special Meetings. In urgent cases, a special meeting can be arranged subject to the approval of the Committee Chairperson.

Attendance. For a meeting to take place, at least two-thirds of the Voting Members must be physically present to establish a quorum. Otherwise, the meeting shall be postponed, unless other methods of communication are available for those members who are not physically present.

Decisions. At least two-thirds of the Voting Members are needed to arrive at a decision. Committee decisions and instructions shall be manifested at the end of each report. For urgent matters, a decision may be sought and carried by referendum and all Voting Members must endorse the same.

⁵ BSP MORB Subsec. X144.2 a.

⁶ BSP MORB Sec. X144 b.

Agenda, Minutes, and Reports⁷

Meetings with the Committee shall be duly minuted and adequately documented. Such records shall document the Committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.

Agenda shall be approved by the ROC. The agenda shall be the list of matters for take-up by the Committee, which consist of, but are not limited to, matters arising from the minutes of previous meeting, items for notation and items for approval.

Minutes shall be drafted by the Secretariat, reviewed and signed-off by the Members, and approved by the ROC Chairperson. The Minutes shall contain a summary of decisions in the preceding meetings and update on ROC instructions. The compliance with instructions shall be followed through regularly with the Bank Units concerned to ensure effective monitoring of the required courses of action.

Reports shall consist of materials corresponding to the matters included in the agenda and shall be provided to the Committee in advance for their perusal.

Matters Reported to the Committee

The ERM shall report to the Committee matters of risk governance including, but not limited to the following:

1. Regular Risk Management Reports (Credit, Market and Operational)
2. Capital Management and Stress Testing
3. Trust Risk Management
4. Subsidiaries Risk Management
5. Treasury Investment Portfolio Update (c/o Treasury Group)
6. Ad Hoc Reports

VI. Charter Change

The ROC Charter shall be initially reviewed by the ERM at least annually or whenever there are significant changes therein. The Board of Directors shall review and approve the changes in the Charter. Triggers for review or revisions include but are not limited to the following:

- Changes in the composition
- Changes in the legal and regulatory environment
- Improvement in Internal processes
- Changes in the Bank's corporate governance structure
- Enhancements in control procedures
- Enhancements in IT infrastructure

⁷ MORB Sec. X144 c.