**Integrated Risk Management Framework**

UCPB Savings Bank

As Amended: 2023

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## Overview

As an inherent part of good governance, UCPB Savings Bank is committed to fulfill its obligation to all its stakeholders to effectively manage the business and ensure that the correspondent risk management process is in place. As a financial institution, we recognize that we are in the business of taking risks and recognize our vulnerability to various forms of risks.

The key risks that the Bank contends with are CREDIT RISKS, MARKET RISKS AND OPERATIONAL RISKS. However, as the global financial community becomes more sophisticated, the Bank is also exposed to various other types of risks that must be considered such as TECHNOLOGY RISKS, STRATEGIC and BUSINESS RISKS, COMPLIANCE RISKS and LEGAL RISKS.

At UCPB Savings, the Risk Oversight Committee (ROC), a board level committee in charge of overseeing the management of the Bank's risks is vested the responsibility of approving risk management processes and recommending for approval by the Board of Directors, risk management framework, policies and risk appetite. The Risk Management Division (RMD), under the Risk Officer, supports the ROC in performing its tasks. RMD reviews risk exposures versus regulatory and approved internal limits, drafts risk policies and assists line management in the formulation of risk reduction strategies compatible with goals. Management, on the other hand, shall ensure that strategic directions and risk tolerance are effectively implemented.

The above is in line with Basel Core Principles of Risk Based-Capital Adequacy Framework and BSP's circulars and guidelines to conform to the Basel Framework.

As part of the Bank's commitment to pursue sustainable development anchored on good governance and to enable environmentally and socially responsible business decisions in compliance with BSP Circular No. 1085, s. of 2021 otherwise (Sustainable Finance Framework) with amended provisions under BSP Circular No. 1128, s. of 2022 known as Environmental and Social Risk Management (ESRM) Framework, the following guidelines are hereby issued.

These guidelines aim to embed sustainability principles, such as climate change risk including environmental and social (E&S) risks and to pursue integration of sustainability and E&S risk management principles in the Bank's operations that are aligned with regulatory requirements.

This manual is subject to annual review.

## Integrated Risk Management Framework

### 1.1 Bank's Risk Mission:

To develop a risk/return consciousness in the Bank in order to preserve capital and ensure adequate return on capital.

### 1.2 Risk Management Objectives:

- Institutionalize the Risk Management Process
- Define and disseminate the Bank's risk philosophy and objectives
- Develop risk management infrastructure
- Identify, measure, control and monitor risks inherent in all Bank activities
- Assist risk taking business and operating units in understanding and measuring risk/return profiles.
- The Bank's ESMRS aims to:
  1) Ensure the identification, mitigation, monitoring and reporting of potential sources and impact of physical, transition and environmental and social (E&S) risks;
  2) Integrate measures to mitigate E&S risks to the Bank's lending operations and operational risk management framework consistent with the Bank's size, risk profile and complexity of operations;
  3) Adopt an effective communication strategy to inform the Bank's internal and external stakeholders of its E&S objectives and targets;
  4) Serve as guide and reference in the assessment of the Bank's E&S risk management capability by internal and external auditors, including BSP examiners.
- These guidelines shall cover all Business Units (BUs). This will also cover the integration of E&S risk management strategies and controls with existing relevant policies (please refer to the list of riskmanagement policies, Annex D).

### 1.3 Risk Philosophy:

- The Bank recognizes that risks are inevitable but can be managed to avoid losses. It isthe Bank's philosophy that risk is better managed and controlled if it is measured consistently and accurately.
- The Bank recognizes that an effective risk management system is a critical component of bank management and a foundation for the safe and sound operation of the Bank.
- The risk management process is a top-down process and shall continually operate at all levels within the Bank. It is important to emphasize that each individual within the Bank has a role and must participate in the process.
- The Bank shall promote a culture of risk awareness and not risk aversion based on the framework recommended by the Banker's Association of the Philippines (BAP).
- All activities shall conform to applicable legal and regulatory provisions of the Republic of the Philippines as well as to the Bank's internal policies and procedural guidelines.
- Policies and practices that generate incentives or temptations for inappropriate actions

shall be avoided. These include but are not limited to overemphasis on short-term performance results that ignore long term risks, ineffective segregation of duties that allow for misuse of resources or concealment of poor results and insignificant penaltiesfor improper activity.

**1.4 Risk Appetite Setting, Review and Enhancement**

Risk Appetite is the level of risk that the Bank is willing to accept in pursuit of its vision, mission andbusiness goals. It is directly related to the Bank's strategy, risk capacity and risk culture. Risk appetite can be viewed in four dimensions:

1. **Risk ceiling** - the maximum amount of capital supporting risk-taking that the organization is willing to commit.

2. **Value** - the amount of compensation to be received in return for risk-taking activities expressedin terms of shareholder or economic value

3. **Risk avoidance** - those types of risks or business activities that are outside the organization's core mission or which it wishes not to engage in.

Risk appetite may be expressed quantitatively and qualitatively. Quantitative statements may be done along the first three dimensions, including risk-adjusted returns, while qualitative statements may be developed for difficult to quantify risks by identifying unacceptable/acceptable areas of an impact/likelihood matrix.

Under the Bank's sustainability objective of managing environmental & social risks, RMD integrates the identification, measurement, mitigation, monitoring and reporting of environmental & social risk under its existingRM Framework. The results indicator for this objective includes the requirement that all concerned units should pass the BSP audit on ESRMS. Under the Bank's RM Framework, E & S risks shall be identified, measured, controlled, monitored and reported through the implementation of various existing RM Tools, Policies and Programs relatedto E&S risks within the following but not limited to business processes:

- credit risk management
- business continuity management
- environmental social safeguards relative to credit delivery
- procurement management
- employee health and safety
- other risk management policies

### 1.5 Risk Appetite Statement

The Bank's Risk Appetite Statements (RAS) is subject to review on a yearly basis to determine relevance and congruence with UCPB Savings' short-term goals and shall be modified according to sound judgment based on economic and banking industry situations. It serves as basis for limit setting and strategic alignment of business activities with corporate strategy. The RAS aims to:

1. Supports and provides evidence of the decision-making processes
2. Clearly outlines areas for innovation and creativity
3. Demonstrates how each element of the business contributes to the overall risk profile
4. Shows how different resource allocation strategies can add to or lessen the burden of risk
5. Identifies specific areas where risk should be removed/ avoided
6. Provides transparency and consistency of business decision
7. Improves understanding and optimization of risk budgets/ capital allocation
8. Considers how new and emerging risks impacts the Bank's achievement of its business goals and objectives

### 1.6 Risk Appetite and How it Relates to Other Risk Dimensions

Risk appetite comes next to risk capacity and is an expression of how much risk the Bank is willing to take. Risk appetite is the basis of risk tolerance, target and limit.

**CAPACITY**
Maximum level of RISK that the company is able to absorb

**RISK TOLERANCE**
Acceptable deviation from the organization's Risk Appetite

**RISK APPETITE**
Level of RISK the company is willing to take

**LIMITS**
Individual risk limits at the transactional level

### 1.7 Risk Appetite Implementation

While there are certain tolerances and limits that are already embedded in existing Bank policies, guidelines, and procedures, it becomes necessary to align these with the Bank's RAS.

There are tolerances and limits that need to be tied to the Bank's capital and capital allocation methodology. Thus, setting of new tolerances and limits are done after the Risk Control Self-Assessment (RCSA) document is finalized and approved by the Board.

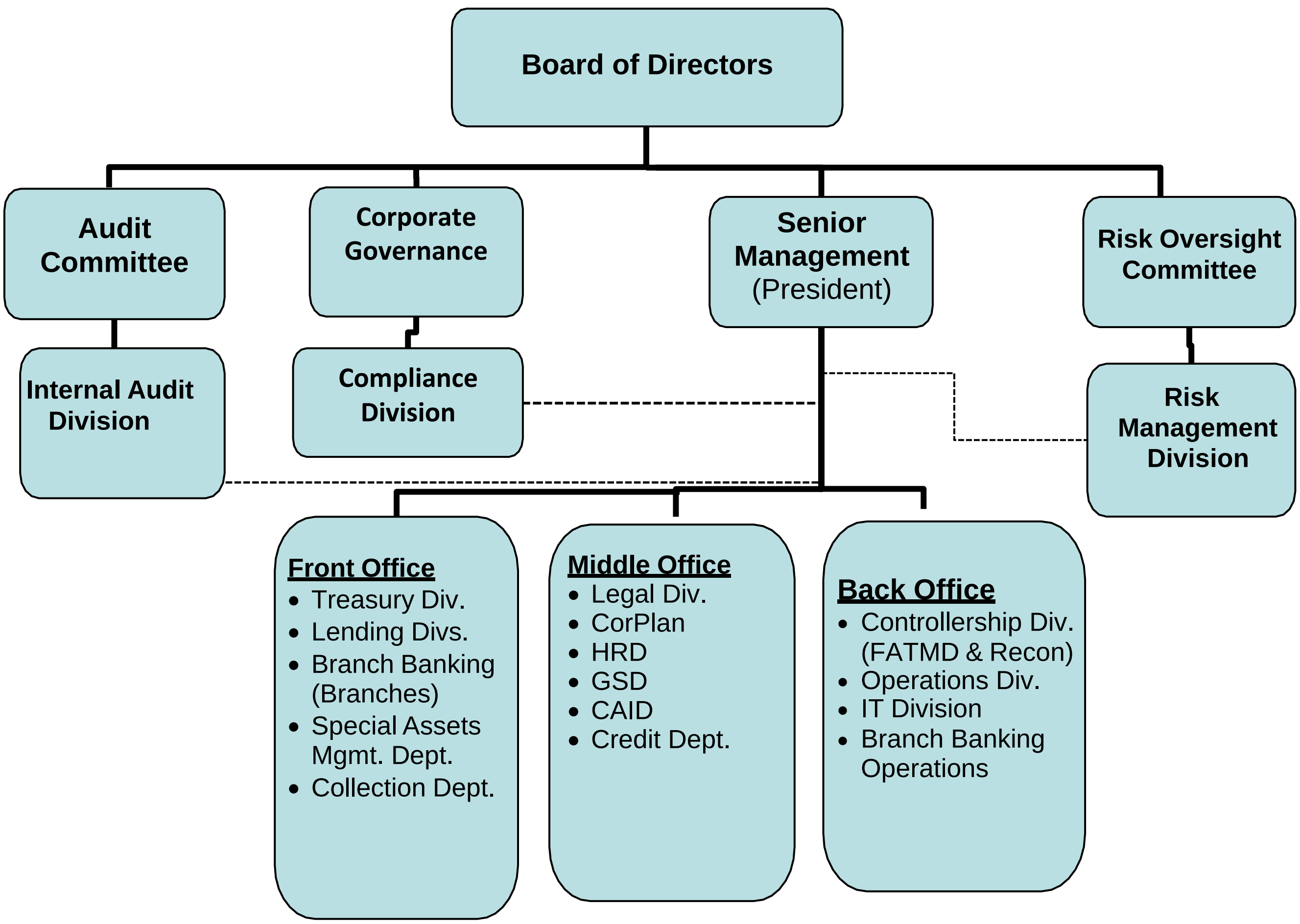
### 1.8 Risk Management Framework

Risk Management (RM) is a continuing process of identifying, measuring, controlling, and monitoring critical risks across the Bank, in support of its strategic direction and to comply with regulatory requirements. It promotes a proactive and robust management of existing, new/emerging risks such as Environmental & Social, Physical and Transition Risks in support of the Bank's sustainability objective of "Managing environmental & social risk".

The Bank's general RM framework is anchored on sound RM framework implementation which involves the application of the following basic elements which are fundamental in ensuring that risks are effectively identified, measured, monitored and controlled.

The manner of application of these elements in managing various risks will depend upon the complexity and nature of the Bank's risk-taking activities as well as its level of risk exposure.

**1.9 Risk Functional Organization:**




To attain a system of "check and balance", following are the three (3) primary functions involved in the risk management process:

1. Risk-Taking Personnel (RTP) Function – initiates and takes the risks duly authorized by the Board which includes personnel in the front office of branch banking, treasury and lending.

   On a regular basis, the performance of the business units shall be reviewed by Senior Management and Board of Directors.

2. Risk Management Function – assist the RTPs and the back office (operations) in identifying, measuring, monitoring, and controlling risks. Also performs independent limits monitoring.

   Specifically, this responsibility shall be handled by the following business units:

| Risk Area | Responsibility Center |
|---|---|
| Credit Risk | Risk Management Division |
| Market & Liquidity Risk | Risk Management Division |
| Operational Risk (including Information Technology & Information Security) | Risk Management Division |
| - Legal Risk | Legal Services Division |
| Reputational Risk | Bank Compliance Division |
| - Social Media Risk | Human Resources Division |
| Financial Risk | Controllership Division |

3. The Risk Control & Compliance (RCC) Function (i.e., back office) – perform the day-to-day compliance check with the approved risk policies.

**1.10 Functional Responsibilities:**

The Bank implements the Risk Management System (RMS) which endeavors to identify, measure, control and monitor risks in all its form. It is both a top-down and a bottom-up process involving the Board of Directors (represented by the Risk Oversight Committee or ROC), the Senior Management (represented by the Management Committee or ManCom, the Asset and Liability Committee or ALCO), the Risk Management Division (RMD), the Business Units and individual Authorized Risk Takers (ARTs).

**Board of Directors (BOD)**

The Basel Committee on Banking Supervision in its revised framework document on *International Convergence of Capital Measurement and Capital Standards* (June 2006) has outlined the risk management responsibilities that are tasked on the BOD, viz:

*"The bank's board of directors has responsibility for setting the bank's tolerance for risks. It should also ensure that management establishes a framework for assessing the various risks, develops a system to relate risk to the bank's capital level, and establishes a method for monitoring compliance with internal policies. It is likewise important that the board of directors adopts and supports strong internal controls and written policies and procedures and ensures that management effectively communicates these throughout the organization."*

BSP Circular 749 dated February 27, 2012 on Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions as amended by BSP Circular 750 states that the Board of Directors as far as risk management is concerned, and consistent with the expectations set out under Sec.132 to promote long-term financial interest ofthe bank and ensure that it has beneficial influence on the economy, the board of directors shall:

1. Institutionalize the adoption of sustainability principles, including those covering E&S risk areas in the bank, by incorporating the same in the corporate governance and risk management frameworks as well as in the bank's strategic objectives and operations, risk strategy, risk appetite and risk management policies and procedures. Moreover, the board shall:

   a. Set strategic E&S objectives covering short, medium, and long-term horizons;

b. Approve the risk appetite on specific risk areas that the bank is willing and capable to manage, results of stress testing exercises, and assessment of the timing and channels through which E&S risks may materialize; and
c. Ensure that material E&S risks are considered in the Risk Control Self-Assessment (RCSA)

2. Approve and oversee the implementation of risk management policies i.e., it shall be responsible for defining the Bank's level of risk tolerance and for the approval and oversight of the implementation of policies and procedures relating to the managementof risks throughout the institution.

   The risk management policy shall include the following:

   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; and

   e. Effective internal controls and a comprehensive risk-reporting process. The board of directors shall ensure that a robust internal reporting system is in place that shall enable each employee to contribute to the appreciation of the Bank's overall risk exposures.

   f. The board of directors shall ensure that the risk management function is 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;

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   c. Ensure that material E&S risks are considered in the Risk Control Self-Assessment (RCSA)

4. Establishes, approves, and oversees the implementation of the Bank's RM Framework including its regular review and enhancement/amendments which shall cover the following:

   a. Sustainability principles
   b. Risk policies, procedures, and practices
   c. Risk Appetite (risk limits/tolerances) and changes therein
   d. Portfolio objectives
   e. E&S objectives covering short, medium, and long-term horizons

f. Overall RM strategies
g. RM Control Framework
h. Mapping of risks
i. Performance appraisal system which integrates the Sustainability Agenda

5. Approves the Bank's risk policies for new/emerging risks i.e., E&S, Physical Risk, Transition Risk. The BOD shall ensure that risks policies are commensurate with the bank's size, nature, and complexity of operations and oversee its implementation and is aligned with internationally recognized principles, standards and global practices and forms part of the enterprise-wide risk management (ERM) system;

6. Ensures that Management actions are consistent with Board policy and that the Bank is operating in compliance with existing laws, rules and regulations and assesses consistency of operations and performance of personnel with the bank's sustainability objectives

7. Oversees management actions in implementing all risk-taking activities to achieve business and sustainability objectives, enforcing controls, implementing required independence, check and balance as necessary and monitors the following:

   a. Performance and risk profile of Bank's products/services and risk-taking activities against established objectives, strategies and policies and is maintained within tolerance and at prudent levels supported by adequate capital.

   b. Bank transactions or business proposals undergo a thorough evaluation process.

   c. Progress of the Bank in meeting sustainability objectives and E&S targets

   d. Presence of a sound organizational structure to ensure attainment of the Bank's sustainability objectives including clear areas of responsibility along business lines and reporting

8. Oversees the Bank's exposure to E&S risks, which shall include potential issues associated with both internal and external activities of the bank and the activities of its clients that may have material impact on the bank's portfolio or reputation. Moreover, the BOD shall monitor its progress in implementing the bank's sustainability policies and ESRMS.

9. Instill an organizational culture supportive of risk management that demands high standards of professional behavior and integrity and one that fosters environmentally and socially responsible business decisions; the BOD shall ensure that the following are adopted and implemented:

   a. sustainability implications are considered in the overall decision-making process;
   b. sustainability objectives and policies are clearly communicated across the institution, and to its investors, clients, and other stakeholders;
   c. capacity building program for the Board of Directors, all levels of management. and personnel to equip the bank in identifying, measuring, monitoring, and controlling existing, new/emerging risks i.e., E&S risks
   d. effective communication strategy to inform both internal and external stakeholders of the bank's strategic objectives and targets for all risks

10. Constitute, among others, the Risk Oversight Committee.

### Senior Management (SM)

Senior Management covers various areas of responsibility that performs various oversight functions on the Bank's operations. This is enabled through the formation of different Senior Management level committees comprising of senior officers who are in the Front Office, Middle Office and Back Office as defined within this document. SM shall be responsible for the implementation, integrity, and maintenance of risk management systemsand must keep the Board adequately informed. SM must:

1. Implement the Bank's strategy.
2. Develop policies that define the Bank's risk tolerance and ensure that they arecompatible with strategic goals.
3. Ensure that strategic direction and risk tolerances are effectively communicated and adhered to throughout the organization.
4. Oversee the development and maintenance of management information systems to ensure that information is timely, accurate and pertinent.
5. Develop, implement, and monitor the implementation of policies, procedures and practices thattranslate the Boards' goals, objectives and risk tolerances and reviews/oversees the following ona periodic basis to ensure that these remain appropriate, sound and consistent with the Board's intent:
    a. Sustainability objectives
    b. Risk policies, procedures and practices
    c. Limits structure
    d. Business Unit objectives
    e. E&S objectives covering short, medium and long-term horizons
    f. Adequate system for measuring risk exposure
    g. RM Control Framework
    h. Mapping of risks
    i. Standards for measuring performance

6. Oversees the establishment and implementation of RM process for new/emerging risks, i.e., E&S, Physical Risk, Transition Risk commensurate with the bank's size, nature, and complexity of operations and oversee its implementation and aligned with internationally recognized principles, standards and global practices and forms part of the Integrated Risk Management.

7. Apprise the board of directors and/or relevant management committee. on a regular basis on the bank's exposure to E&S risks, which shall include potential issues associated with both internal and external activities of the bank and the activities of its clients that may have material impact on the bank's portfolio or reputation. Moreover, the senior management shall report its progress in implementing the bank's sustainability policies and ESRMS

### Risk Oversight Committee (ROC)

The ROC shall be responsible for the development and oversight of the risk management program of the Bank.

Following are its core responsibilities:

1. Identify and Evaluate Exposures.

Assess the probability of each risk becoming reality and estimate its possible effect andcost. 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.

   Develop a written plan i.e., the Risk Management 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.

   Conduct regular discussions on the institution's current risk exposure based on regularmanagement reports and assess how the concerned units or offices reduced these risks.

   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 thatimmediate corrective actions are taken whenever limits are breached.

4. Review and Revise the Plan as Needed.

   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 of harmor loss.

   Report regularly to the Board of Directors the entity's overall risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.

5. Supports the BOD in instilling an organizational culture supportive of risk management, and high standards of professional behavior and integrity and one that fosters environmentally and socially responsible business decisions

**Risk Management Function**

The Risk Management Division (RMD) (see Table of Organization in Annex F) and the Chief Risk Officer (CRO) shall communicate formally and informally to the ROC any material information relative to the discharge of its function, viz:

1. Identify the key risk exposures and assess and measure the extent of risk exposures of the Bank.
2. Monitor the risk exposures and determine the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internalcapital adequacy assessment on an on-going basis;
3. Monitor and assess 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. Report on a regular basis to senior management and the board of directors of the results of assessment and monitoring.
5. Ensure that E&S risk-taking activities remain consistent with the Bank's risk appetite and risk governance framework.

6. Provide guidance in identifying, measuring, monitoring, and reporting and mitigate exposures to E&S risk exposures inherent in the Bank's operations, products and services as part of the second line of defense.
7. Assist management in understanding and managing E&S risk exposures and ensure the development and consistent implementation of risk policies, processes, and procedures throughout the Bank.
8. Business Units (BUs) under RMD shall oversee the conduct of risk identification, assessment, monitoring and mitigation of E&S risks associated with various Bank activities as specified below:

| RMD Departments | Focus Areas |
|---|---|
| Credit Risk Management Unit (CRMU) | Lending products |
| Operational Risk Management Unit (ORMU) | • Other operations of the Bank (deposit taking, trading/ investments, etc.)<br>• Business continuity management<br>• HR Policies, e.g., Employee health and safety, employee wellness, training and development, performance and rewards<br>• Procurement process<br>• E&S risk areas on products, programs, services<br>• Emerging risks exposures (E&S, Related Party Transitions (RPT), Reputational risk) |
| Market & Liquidity Risk Management Unit (MLRMU) | • Trading and investments |
| Information Security and Technology Risk Management Unit (ISTRMU) | • System Development<br>• Acquisition / use of security tool/solution<br>• Development of new product / channel / service |

Risk Management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the developments in the market, industry, andproduct 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.

The Chief Risk Officer shall be independent from executive functions and business line responsibilities, operations, and revenue-generating functions. This independence shall be displayed in practice at all times as such, albeit the Chief Risk Officer may report to the President or Senior Management, he shall have direct access to the BOD and the ROC without any impediment. In this regard, the ROC shall confirm the performance ratings given by the President or SM to the Risk Officer.

The Chief Risk Officer shall have sufficient stature, authority, and seniority within the Bank. This will be assessed based on the ability of the Chief Risk Officer to influence decisions that affect the Bank's exposure to risk. The Chief Risk Officer shall have the ability, without compromising his independence, to engage in discussions with the BOD, President, and other senior management on key risk issues and to access such information as he deems necessary toform his or her judgment. The CRO shall meet with the BOD/ROC on a regular basis and such meetings shall be duly minuted and adequately documented.

The CRO shall be appointed and replaced with prior approval of the BOD. In cases, when the CRO will be replaced, the Bank shall report the same to the SES of the BSP within five (5) days from the time it has been approved by the BOD.

**Audit Function**

The Internal Audit Division takes the lead in the ongoing monitoring of the internal controlprocess and in providing an independent assessment of system integrity, viz:

1. Review compliance and performance of Risk Management and Risk Control and Compliance functions.
2. Review and ensure compliance of Risk-Taking Personnel with policies and proceduresperiodically.
3. Scan for internal control deficiencies or ineffectively controlled risks and report these ina timely manner to the Board of Directors.
4. Conduct follow-up reviews and immediately report to the Board of Directors for identifieddeficiencies that remain uncorrected.
5. Review and ensure that existing policies and procedures remain relevant and adequatefor the Bank's activities.

Internal Audit Division (IAD) is responsible for the adequacy, efficiency and effectiveness of the Bank's internal control, risk management and governance systems in the context of potential future risks. It reviews the compliance system and implementation of established policies and procedures.

**Compliance Function**

The Compliance Officer, who has the minimum seniority level mandated by the BSP, has the primary duties of identification, measurement, control and monitoring compliance or regulatory risks. He/she shall oversee and coordinate the implementation of the complianceprogram which to be effective must:

1. Identify all relevant laws and regulations applicable to the Bank.
2. Analyze the risks of non-compliance, prioritize these risks (e.g., low, medium, high) and address all compliance matters.
3. Establish a clear communication process to inform all affected business and operating units of the Bank on any and all regulatory changes in a timely manner.
4. Establish and maintain a constructive working relationship with all regulatory agencies,for the prime purpose of seeking clarifications on laws and regulations or discussing compliance findings with the authorities.
5. Establish and maintain a regular schedule of compliance testing of all the Bank's activities and products with applicable legal and regulatory requirements. The

frequency of these tests must be commensurate to the identified risk levels (i.e., most frequent testing for high-risk issues).

6. Report all compliance findings to the Audit Committee and the Risk Management Committee and if warranted, to the Board of Directors.
7. BCD shall conduct a periodic audit and compliance testing to ensure the Bank's adherence with policies related to the implementation of the Bank's RM Framework which includes management of E&S risks and evaluation of the robustness and continuing relevance of said policies.

Bank Compliance Division (BCD) and Internal Audit Division (IAD) shall conduct periodic auditand compliance testing to ensure the Bank's adherence to policies related to the management of E&S risks and evaluation of the robustness and continuing relevance of said policies.

**Human Resource Division**

Human Resource & General Services Division (HRGSD) shall integrate E&S sustainability agenda in its human resource policies, employee health and safety and training and development.

**Front Office**

Front Office Personnel (FOPs) refer to all bank personnel (normally officers) who have the ability and have been given the authority to commit the Bank to financial transactions and therefore expose the Bank to various risks. FOPs, who operate within designated units andspecified limits, are the Bank's "front-line" in risk. They are responsible for identifying opportunities for return (e.g., yield enhancement, cost reduction, fees), taking the commensurate risk positions and actively monitoring, evaluating and adjusting those positions.

Because of the considerable discretion inherent in their activity, FOPs have the responsibility to:

1. Know, understand, and fully commit themselves to all of the Bank's risk policies and procedures herein outlined, and to be thoroughly familiar with all product manuals and institutional standards as well as all pertinent regulations that apply to their risk-taking activity
2. Know the risks assumed in their activities; and the precise amount, nature and application of risk limits delegated to them to control those risks.
3. Conduct their risk-taking activities within limits at all times; immediately reporting excesses to line managers or Business Unit Heads.
4. Understand the risk profile of the managed position/portfolio, and to scan and determinemarket opportunities within the context of overall bank strategy and risk tolerance.
5. Identify types of risks (with RMD assistance) created in any new products and activitiesthey plan and the impacts on associated market, liquidity, or credit limits; initiate productproposals (with RMD) for Management Committee deliberation.
6. Assist the Risk Managers and Credit Officers in their assessment of the risk entity and the risk entity's shareholders and management (e.g., determining customer "suitability"to a transaction).

7. Maintain relations and uphold the image of the Bank with all customers and counterparties.
8. Advice Risk Managers, Credit Officers, and Risk Control of Market perceived deterioration of credit quality of a risk entity or group.
9. Business Unit Heads and Line Managers have the responsibility for the on-site monitoring and supervision of RTPs. These senior officers normally have risk-taking experience and an understanding of markets, instruments, counterparties/customers and trading practices.

**Middle Office**

Middle Office personnel comprise the support structure and base for the Bank's overall operations.

**Back Office**

Back-office functions are performed by the operations personnel providing support to the front-line activities of the Front Office personnel.

It is the function of the back-office units to establish and maintain a system of effective internal control for the safe and sound operation of the banking organization. This revolves around the areas of:

1. Separation of duties and functions such that front and back-office personnel are not assigned conflicting duties and that no one person is involved with a transaction from origination to settlement.
2. Maintenance of reliable information systems to ensure that processing of transactions adhere to internal and external regulations, maintain the integrity of data and keep a framework of ease of reporting and effective management information system.
3. Documentation and dissemination of bank operating policies and procedures.

## 1.11 Enterprise Risk Management

**Definition:**

A process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

Above definition reflects the following fundamental concepts of ERM:

- A process, ongoing and flowing through an entity
- Effected by people at every level of an organization
- Applied in strategy setting
- Applied across the enterprise, at every level and unit, and includes taking an entity levelportfolio view of risk
- Designed to identify potential events that, if they occur, will affect the entity and tomanage risk within its risk appetite
- Able to provide reasonable assurance to an entity's management and board of directors

- Geared to achievement of objectives in one or more separate but overlapping categories.

Its underlying premise is that as every entity exists to provide value for its stakeholders andall entities face uncertainty, the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Thus, ERM encompasses thefollowing:

- Aligning risk appetite & strategy
- Enhancing risk response decisions (risk avoidance, reduction, sharing & acceptance)
- Reducing operational surprises and losses
- Identifying and managing multiple and cross-enterprise risks
- Seizing business opportunities
- Improving deployment of capital

**ERM Components**

ERM's eight interrelated components derived from the way management runs an enterprise and are integrated with the management process:

- ***Internal Environment*** – The internal environment encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity's people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate.
- ***Objective Setting*** – Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.
- ***Event Identification*** – Internal and external events affecting achievement of an entity's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channeled back to management's strategy or objective-setting processes.
- ***Risk Assessment*** **–** Risks are analyzed, considering the likelihood and impact, as a basisfor determining how they should be managed. Risks are assessed on an inherent and aresidual basis and the process must initially consider which risks are controllable and uncontrollable.
- ***Risk Response*** – Management selects risk responses – avoiding, accepting, reducing, transfer or sharing risk – developing a set of actions to align risks with the entity's risk tolerances and risk appetite.
- ***Control Activities*** – Policies and procedures are established and implemented to help ensure the risk responses are uniformly and effectively carried out across the institution.
- ***Information and Communication*** **–** Relevant information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down,across, and up the entity.
- ***Monitoring*** – The entirety of enterprise risk management is monitored and modificationsmade as necessary. Monitoring is accomplished through a continuous

reporting systemof ongoing management activities, separate evaluations, or both.

### 1.12 The Risk Management Process

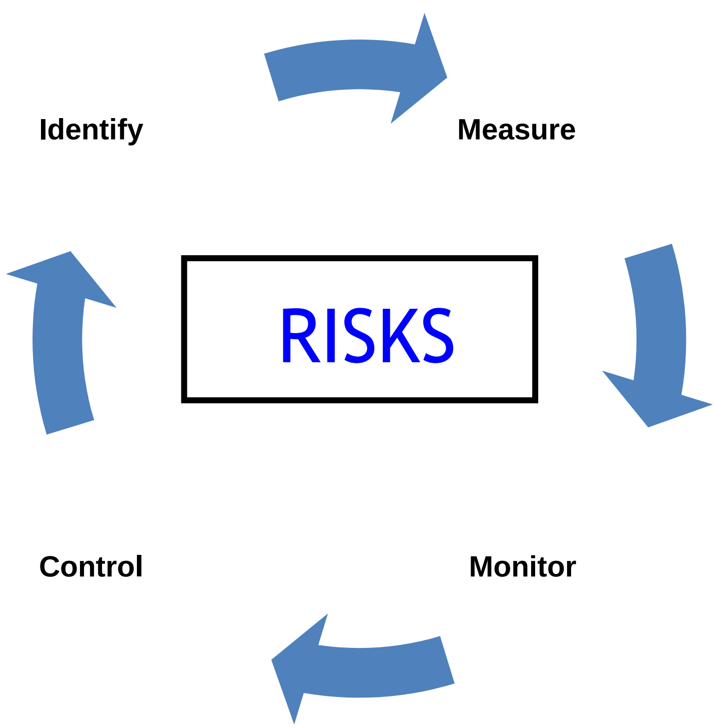
The Risk Management Process is performed coherently and collaboratively at three levels,namely:

a. **Strategic Level** – where the Board of Directors, President, Controller, Corplan and otherBoard level and senior level committees set revenue goals, define strategic plans, definethe risk philosophy, mission and vision.

b. **Transactional level** – where the Risk-Taking Personnel (RTP), Front and Back-Office personnel determine opportunities and take risks. The risk taking activities at this level shall be congruent to the goals, strategies and risk philosophy set by the policy making body.

c. **Portfolio level** – where the portfolio/position are captured and evaluated by independent third party, other than risk taking personnel (i.e., RMD, IAD, and ComplianceDivision).

In each of these 3 levels, the risk management framework consisting of 4 major processes shall be applied:




To address the Environmental and Social Risk related to the Bank's lending operations, the procedural guidelines shall be implemented.

For the Environmental and Social Risk related to Operational Risk, the following process shall be conducted by ORMD in coordination with ESRM key players and BUs aligned with existing ERM tools, policies and programs related to E&S Risk

Management as follows:

a. Risk Control Self-Assessment (RCSA)
b. Loss Event Reporting (LER)
c. Loss Event Database
d. Risk Awareness Training
e. Real Estate Loan (REL) Manual
f. Commercial Loan Manual
g. New Modified SBL Agri-Manual
h. Auto Loan Manual
i. SBL Manual
j. Cash Loan Manual
k. Branch Salary Loan Manual

General Guidelines:

1. The ESRMS ensures that UCPBS's lending activities are in compliance with the environmental procedures and standards. It helps the Bank to avoid and or manage proactively any environmental and social risk likely to arise from borrower's business activities which the Bank grants a loan by conducting social and environmental due diligence prior to loan approval and disbursement as embodied in Credit Risk Manual

   a. The ESRMS shall also ensure that E&S risk events in the context of Operational Risk which may cause severe disruption to the Bank's operations are identified, measured, mitigated, monitored, and reported through the Risk and Control Self-Assessment (RCSA) for Environmental and Social Risk.

   b. Management of E&S risk exposures shall be aligned with the Bank's corporate governance and risk management framework, strategic objectives and operations, risk strategies, risk appetite and risk management frameworks, policies and procedures.

   c. The E&S strategic objectives shall cover:
      1) Short, medium and long term horizons;
      2) Risk appetite on specific risk areas;
      3) Undertaking and management of results of stress testing exercises;
      4) Assessment of the timing and circumstances in which E&S risks may materialize; and
      5) Assessment of material E&S risks in the Risk & Control Self- Assessment (RCSA).

2. The RM process implementation shall take into consideration the main drivers of E&S risks in the Bank's existing Credit policy/ies (please refer to Annex B shows examples of E&S risks and their impact to the Bank).

   a. Lending products
   b. Bank's operations (lending, deposit taking, trading/investments, etc.)
   c. Human Resource and Procurement Management

3. The results of E&S risk stress testing shall provide inputs to the annual Risk & Control Self-Assessment (RCSA) of the Bank.

4. The Bank shall conduct periodic review and assessment in E&S risks areas, considering both physical risk, and transition risk on products, programs, services, electronic channels, and other activities including outsourcing and procurement, to ensure continuing relevance of sustainability objectives.

5. The Bank shall provide a continuing capacity-building program for the BOD, all levels of management, and personnel to equip the Bank with skills in identifying, measuring, monitoring, and controlling E&S risks.

6. The ESRMS shall remain consistent with existing guidelines related to the management of E&S risks.

7. The Bank shall implement, monitor and report the status of its ESRMS Roadmap to ensure full establishment and implementation of these guidelines.

**Risk Identification and Assessment:**

This is a continuing process that should occur at both the transaction and portfolio level. To properly identify risks, the Bank must recognize and understand existing risks or risks that may arise from new business initiatives. Risk, from a supervisory perspective, is the potential that events, expected or unexpected, may have an adverse impact on the Bank's capital or earnings. BSP has categorized risks into: credit, market, interest rate, liquidity, operational, compliance, strategic, reputation and technology. These categories are not mutually exclusive; any product or service may expose the Bank to multiple risks. In addition, they can be interdependent i.e., increased risk in one category can increase risk in other categories.

To assist the Bank in the identification of E&S issues and risks impacting its core and support businesses the following steps shall be conducted under the Risk Identification and Assessment process.

Below suggest that potential effects of climate risk drivers (physical and transition risks) in each risk type:

a. ***Credit Risk***. Credit risk arises from counterparty's failure to meet the terms of any contract with the Bank or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Credit risk is not limited to the loan portfolio. Credit risk increases if climate risk drivers reduce borrowers' ability to repay and service debt (income effect) or Bank's ability to fully recover the value of a loan in the event of default (wealth effect)

b. ***Market Risk*** is the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. This risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity and commodities markets. Reduction in financial asset values, including the potential to trigger large, sudden, and negative price adjustments where climate risk is not yet incorporated into prices. Climate risk could also lead to a breakdown in correlations between assets or a change in market liquidity for particular assets, undermining assumptions.

c. ***Interest rate risk*** is the current and prospective risk to earnings or capital arising from movements in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting the Bank's activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in the Bank's products (options risk).

d. ***Liquidity Risk*** is the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. Bank's access to stable source of funding could be reduced as market conditions change. Climate risk drivers may cause Bank's counterparties to draw down deposits and credit lines.

e. ***Operational Risk*** is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services marketplace. Operational risk is evident in each product and service offered. Operational risk encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment. Increasing legal and regulatory compliance risk associated with climate-sensitive investments and businesses.
   1. Supply chain disruption
   2. Forced facility closure

f. ***Legal Risk*** arises from legal sanctions against the Bank. This impacts not only the Bank's financial performance but will also affect the bank's reputation if such legal sanctions are made public.

g. ***Strategic risk*** is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

h. ***Compliance risk*** is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities may be ambiguous or untested. This risk exposes the Bank to fines, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and lack of contract enforceability.

i. ***Reputational risk*** is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the Bank to litigation, financial loss, or a decline in its customer base. In extreme cases, this may result in bank run. Reputation risk exposure is present throughout the organization and requires the responsibility to exercise an abundance of caution in dealing with customers and the community. Increasing reputational risk to banks based on changing market or consumer sentiment.

j. ***Technology risk*** - Technology can give rise to operational, strategic, reputational and compliance risks in many ways. With banks' increased reliance on technology, it is important for the Bank to understand how specific technologies operate and how their use or failure may expose the Bank to risk.

The O**perational Risk Assessment** for E&S risk shall be conducted through the RCSA for people risk (please refer to Annex C).

**Risk Control Self-Assessment (RCSA)**

a. ORMU shall develop the RCSA for E&S risk, which shall aim to identify and measure impact of E&S risk arising from lending operations, procurement, business operations, human resource policies, among others.

b. Concerned BUs shall conduct a self-evaluation of E&S risks at the transactional level using the RCSA template to focus on the identification, assessment, control and mitigation, monitoring and reporting of E&S risk

c. The following information / data shall be collected and analyzed using the RCSA template which shall be administered online:

d. Risk and Risk Drivers
   1. Basel Category – Levels 1 to 3
   2. Inherent and Residual Losses
   3. Existing Controls and effectiveness level of controls
   4. Likelihood of occurrence
   5. Overall Impact Level

e. The RCSA inputs by BUs shall be duly validated by RMD ORMU based on it's a) completeness, b) consistency, and c) correctness and the results shall be communicated to concerned BUs.

f. Upon finalization, the RCSA results shall be consolidated on a per division basis and reported to ManCom and Risk Oversight Committee (ROC) highlighting the following:

   - Overall risk profile of the division
   - Overall ranking of BUs based on inherent and estimated residual losses

- Top BUs with inherent and estimated residual losses
- Top risk events based on inherent and estimated residual losses with corresponding controls
- Comparison of estimated residual losses versus actual losses
- Additional action plans to address severe risks
- Comparison of current versus RCSA results of the past year

g. BUs shall review the sufficiency of action plan or additional measures for risks with overall impact of “moderate to severe” level and “poor or non-existent” controls.

h. ORMU and BUs shall be guided by the following RCSA process and timelines:

| RCSA Process | Schedule | Unit Responsible |
|---|---|---|
| Review/updating of risk threshold and RCSA process and template | Q3 of current year | ORMU |
| Dissemination of RCSA template | Q4 of the current year | ORMU |
| Preparation and submission of RCSA of BUs | 30 days after RCSA dissemination | All BUs |
| Collection/follow up submission of RCSA and validation | Q4 to Q1 of succeeding year | ORMD |
| Re-assessment per validation results | Q4 to Q1 of succeeding year | BU |
| Consolidation and reporting of RCSA results | Q2 of succeeding year | ORMU |

**Risk Measurement:**

This refers to the assessment of risks in both individual transactions and portfolios. The measurement tools must be accurate and appropriate for each type of risk, viz:

**Quantifiable risks** are subject to numerical measurement (through validated methodologies). These risks shall be managed and controlled by means of a structure of general and specific limits (expressed in monetary units).

**Non-Quantifiable risks** are not subject to specific numerical measurement, but are just as significant and require similar management attention. These risks are invariably managed by development of both strong “control culture”, and an effective internal control system that constantly monitors and updates operational policies and procedures of the Bank’s activities and transactions.

To assist the Bank in the measuring the impact of E&S risks, the template for the RCSA for E&S risk shall be used by concerned BUs (Annex C).

This is the process of assessing the magnitude of risks. It involves the Bank’s Authorized Risk Takers (ARTs) or risk owners in quantitatively and qualitatively determining the consequences, including financial impact, of possible risk events over a given time horizon under alternative scenarios.

The Bank uses the following risk measurement methodologies:

1. **Value-at-Risk** – calculates the maximum loss expected on an investment over a given period of time and given a specific level of confidence. VaR is used for

assessing market risk. The Bank computes VaR using a Parametric model with the Bloomberg Portfolio Value-at-Risk (PVaR) function at a 99% confidence interval and daily time horizon.

2. **Sensitivity Analysis –** looks into how projected performance varies with changes in the key assumptions which constitute the bases for projections. As a measurement of risk, it studies the effect or sensitivity of earnings to assumed changes in inputs, pricing, strategies, and other relevant variables. Sensitivity analysis is done by the Bank for both credit and investment portfolios.

3. **Stress Testing** – a test that measures the stability of a given model and involves verification beyond normal operational capacity to observe results. For instance, the impact on capital andearnings of a huge credit default or a sharp movement in interest rates may be considered.

4. **Scenario Analysis** – is the process of analyzing possible future events by considering alternativepossible situations. It assumes worst-case risk events that could impact on the Bank's earnings and capital.

5. **Key Risk Indicators (KRIs**) –are measurable parameters that should be forward-looking and help predict the occurrence of loss events. KRIs suggest possible symptoms, warning signs or so- called 'red flags' that indicate there may be an issue warranting further analysis, (e.g., a new risk to source and measure). Indicators should be proxies for risk drivers and therefore directly correspond to those factors in the control environment that can increase or decrease operational risk

**Stress Testing** (general policy)

The Bank has adopted stress testing across all types of risk as a tool to evaluate the potential impact on portfolio values of unlikely, although plausible, events or movementsin a set of financial variables. This shall be done quarterly except for scenariosdependent on certain events the occurrence of which will trigger the conduct of a stresstest.

Stress testing involves the aggregation of information across the Bank to assess vulnerability to interrelated events across all risk and asset types and evaluation of possible outcomes / potential risk exposures in order to check the organization'sstability and resilience so as to:

- Explore various types of vulnerabilities/possible outcomes, including rare and extreme events and circumstances and assess their impact on the Bank.
- Facilitate the development of risk mitigation or contingency plans across a range ofstressed conditions to be able to withstand such outcomes.
- Feed into capital and liquidity planning procedures as it provides an indication ofhow much capital might be needed to absorb losses should large shocks occur.
- Overcome limitations of models and historical data.

The Bank shall at its option, use the following stress testing techniques on its portfolio:

a. Simple sensitivity tests that determine the impact on income of movements of one or more market risk factors, using predefined set percentage changes (e.g., price change, yield change).

b. Scenario Analysis describes the process of creating “what if” scenarios that the Bank’s risk managers foresee to happen in the future and determining the consequences on the Bank’s portfolio under extreme market environment. Scenarioanalysis may be based on historical scenarios being replayed on the present-day financial statements or these may be based on hypothetical scenarios of events thathave not yet occurred.

c. Maximum Loss Approach which uses a combination of events that risk managers believe would be most damaging to the Bank’s portfolio. This technique assesses the riskiness of a business unit’s portfolio by identifying the most potentially damaging combination of moves or market risk factors.

We recognize the fact that while stress testing can provide valuable information regarding potential future outcomes, similar to any other risk management tool, it haslimitations and cannot provide absolute certainty regarding the implications of assumed events and impacts. No single stress test can accurately estimate the impactof all stressful events and circumstances.

The Measurement process for major types of risks identified is discussed in the specificsections of the manual.

**Risk Monitoring and Reporting:**

Monitoring is essential to ensure that risk positions and exceptions are taken into consideration in management’s decisions. Thus, it must be timely, accurate, informative, and should be distributed to appropriate individuals to ensure action, when needed.

a. The implementation of action plans under the RCSA shall be monitored and reported to ROC and BOD on acontinuous basis.
b. Risk owners shall provide information/data on the following which shall be reported by ORMU to ROC and theBOD:

| Report | Frequency / Timeline |
|---|---|
| Result of E&S RM process (RCSA) | Upon completion of the RM process step |
| Revision of action plan that are not adequate in addressing risks | Annually |
| New strategies to resolve residual risk | |
| New emerging E&S risk | |

This ensures that the risks identified are arrayed against the limits set; that the information and/or data pertaining to the risks have been thoroughly analyzed; and anybreaches in the limits are appropriately reported; and finally, that management actions as spelled out in the risk approval process are followed through. It is important that corrective and/or continuing actions are engaged to ensure the completeness of the riskmanagement process.

**Risk Control:**

This refers to risk limits that must be communicated through policies, standards, and procedures that define responsibility and authority. These control limits should be valid tools that management should be able to adjust when conditions or risk tolerances change. Likewise, the Bank should have a process to authorize exceptions or changes to risk limits when warranted.

Where the risk is material, the decision to use any of the following approaches should be transparent within the organization and should be consistent with the Bank's overall business strategy and appetite for risk:

a. *Accept risk* - Management decides to continue operations as is with a consensus to accept the inherent risks.

b. *Monitor risk* - Management performs timely review of risk positions & exceptions and ensures that its decisions are implemented for all geographies, products and legal entities.

c. *Transfer risk* - Management decides to transfer the risk from (for example) one business unit to another or from one business area to a third party (e.g. insurer).

d. *Control Risk* - Management controls the occurrence of risk. It entails establishment and communication of risk limits through policies, standards and procedures that define responsibility and authority.

e. *Eliminate risk* - Management decides to eliminate risk through dissolution of a key business unit or operating area.

f. *Reduce risk* -Management decides to reduce current risks through improvement incontrols and processes.

g. *Mitigate risk* - Management accepts current level of risk but undertakes key actions to mitigate risks through changing the way it conducts business.

The risk owners of E&S risks that are found as critical/priority or those whose RCSA resulted to"moderate to severe" overall impact level or with "poor or non-existent control" shall conductthe following RM strategy and action plan formulation procedures:

- Review results of RCSA and identify key E&S risk drivers
- Coordinate with BUs or key players with information and influence on the implementation of the RM strategy
- Determine the general response to the risk using the RM Options Model as reference:
- Is the risk inherent such that it has to be accepted? Is there room to further reduce exposure to this risk?
- If the risk is not inherent, can the risk be rejected or avoided? Up to what extent?

Existing Bank policies which serve as E&S risk mitigation and control shall continuously be implemented. These guidelines shall be reviewed and revised on a regular basis as part of the Bank's Sustainability agenda in order to comply with regulatory requirements (please refer to Annex E – List of policies related to E&S risks)

**Internal controls**

a. The audit and compliance functions shall incorporate in their respective programs the assessment of adherence to policies related to the management of E&S risks and evaluation of the robustness and continuing relevance of the policies. The internal audit function shall also review the Bank's adherence to international sustainability standards and principles as well as relevant laws and regulations.

b. RM process output shall be consulted cross-functionally and presented to Senior Management and the BOD for approval to ensure comprehensive inputs from key players with relevant information and influence on E&S risk management.

c. The Bank's guidelines and policies (Annex D) that support the implementation of the ESRMS shall be reviewed and enhanced on a regular basis to ensure its continued relevance and effectiveness.

d. Continuous enhancement of the ESRMS guidelines shall be conducted whenever process improvement opportunities surface.

## 1.13 ANNEXES

### ANNEX A – DEFINITION OF TERMS

| | |
|---|---|
| **Climate-related financial risks** | The potential risks that may arise from climate change or from efforts to mitigate climate change, their related impacts and their economic and financial consequences |
| **Environmental and Social (E&S) Risk** | Potential financial, legal, and/or reputational negative effect of environmental and social issues on the Bank. E&S issues include environmental pollution, climate risk (both physical and transition risk), hazards to human health, safety and security, and threats to community, biodiversity and cultural heritage, among others. |
| **Environmental and Social Risk Management System (ESRMS)** | Policies, procedures and tools to identify, assess, monitor and mitigate exposures to E&S risks |
| **ESG** | Environmental, Social and Governance refers to a set of criteria that play a role in the investment decision-making process or in a company's operations. Environmental factors consider how an investment or a company contributes to environmental issues such as climate change and sustainability. Social factors examine the social impacts of an investment or a company on communities. Governance relates to transparency and legal compliance of an investment or a company's operations, for instance in terms of accounting and shareholders' rights |

| | |
|---|---|
| **Global warming** | The estimated increase in global mean surface temperature averaged over a 30-year period, or the 30-year period centered on a particular year or decade, expressed relative to preindustrial levels unless otherwise specified. For 30-year periods that span past and future years, the current multi-decadal warming trend is assumed to continue. |
| **Greenhouse gases (GHGs)** | Greenhouse gases are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of thermal infrared radiation emitted by the Earth's surface, by the atmosphere itself, and by clouds. This property causes the greenhouse effect. Water vapor ($H_2O$), carbon dioxide ($CO_2$), nitrous oxide ($N_2O$), methane ($CH_4$) and ozone ($O_3$) are the primary greenhouse gases in the Earth's atmosphere. |
| **Physical Risk** | Potential loss or damage to tangible assets arising from climate change and/or other weather-related conditions such as floods, typhoons, droughts, earthquakes, extreme weather variability and rising sea levels |
| **Physical risk drivers** | Physical risk drivers are the changes in weather and climate mentioned above that lead to physical risks and impacts on economies and banks (e.g. flood). |
| **Reputational Risk** | risk to earnings, capital, and liquidity arising from negative perception on the Bank of its customers, shareholders, investors, and employees, market analysts, the media, and other stakeholders such as regulators and other government agencies, that can adversely affect the Bank's ability to maintain existing business relationships, establish new businesses or partnerships, or continuously access varied sources of funding |
| **Greenhouse gases (GHGs)** | Greenhouse gases are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of thermal infrared radiation emitted by the Earth's surface, by the atmosphere itself, and by clouds. This property causes the greenhouse effect. Water vapor ($H_2O$), carbon dioxide ($CO_2$), nitrous oxide ($N_2O$), methane ($CH_4$) and ozone ($O_3$) are the primary greenhouse gases in the Earth's atmosphere. |
| **Physical Risk** | Potential loss or damage to tangible assets arising from climate change and/or other weather-related conditions such as floods, typhoons, droughts, earthquakes, extreme weather variability and rising sea levels |

| | |
|---|---|
| **Physical risk drivers** | Physical risk drivers are the changes in weather and climate mentioned above that lead to physical risks and impacts on economies and banks (e.g. flood). |
| **Sustainable Finance** | any form of financial product or service which integrates environmental, social and governance criteria into business decisions that supports economic growth and provides lasting benefit for both clients and society while reducing pressures on the environment<br><br>Also covers green finance which is designed to facilitate the flow of funds towards green economic activities and climate change mitigation and adaptation projects |
| **Transition Risk** | Potential economic adjustment cost resulting from policy, legal, technology and market changes to meet climate change mitigation and adaptation requirements |
| **Transition Risk Drivers** | These drivers represent climate-related changes that could generate, increase or reduce transition risks. They include changes in public sector (generally government) policies, legislation and regulation, changes in technology and changes in market and customer sentiment, each of which has the potential to generate, accelerate, slow or disrupt the transition towards a low-carbon economy |

## ANNEX B – EXAMPLES OF E&S RISKS AND THEIR IMPACT TO THE BANK

| E&S Risk | Impact to Client | Impact to Bank |
|---|---|---|
| • Non-compliance with existing labor laws | **Financial**<br>• Low productivity due to workplace accidents<br>• Costs re: payment of fines<br>• Non-compliance with human rights laws (labour, health and safety standards) in their supply chain policy<br>• Low productivity due to poor reputation<br>**Reputational**<br>• Poor public perception of the company or its products | **Financial**<br>• Reduced revenues due to Loan restructuring/write off<br>• Impairment of sale-ability or value of collateral when Bank takes collateral or own assets<br>**Legal**<br>• Liability as legal owner of asset that caused damage to environment, health, safety when Bank takes collateral or own assets<br>**Reputational**<br>• Negative media attention due to association with client<br>• Campaign against Bank, loss of customers |
| • Non-compliance with existing environmental laws | **Financial**<br>• Costs re: payment of fines<br>• Write down of asset value due to irremediable contamination<br>• Remedying contaminated land to enable sale/disposal<br>**Legal**<br>• Legal obligation to restore land used for waste disposal | |
| • Lack of environmental management system in place | **Financial**<br>• Low productivity due to workplace accidents<br>• Costs re: payment of fines<br>**Legal**<br>• Legal liability for damage to environment, human health or property<br>• Suspension of operations by regulators due to accident or fire<br>• Costs re: payment of fines<br>• Non-compliance with human rights laws (labour, health and safety standards) in their supply chain policy<br>• Low productivity due to poor reputation<br>**Reputational**<br>• Poor public perception of the company or its products | |
| • Non-disclosure of sourcing | **Financial** | |

| E&S Risk | Impact to Client | Impact to Bank |
|---|---|---|
| practices (origin of products, services, facilities) | • Costs re: payment of fines<br>• Non-compliance with human rights laws (labour, health and safety standards) in their supply chain policy<br>**Reputational**<br>• Poor public perception of the company or its products<br>• Low productivity due to poor reputation | |
| • Lack of environmental management system in place | **Financial**<br>• Low productivity due to workplace accidents<br>• Costs re: payment of fines<br>**Legal**<br>• Legal liability for damage to environment, human health or property<br>• Suspension of operations by regulators due to accident or fire<br>• Costs re: payment of fines<br>• Non-compliance with human rights laws (labour, health and safety standards) in their supply chain policy<br>• Low productivity due to poor reputation<br>**Reputational**<br>• Poor public perception of the company or its products | |
| • Non-disclosure of sourcing practices (origin of products, services, facilities) | **Financial**<br>• Costs re: payment of fines<br>• Non-compliance with human rights laws (labour, health and safety standards) in their supply chain policy<br>**Reputational**<br>• Poor public perception of the company or its products<br>• Low productivity due to poor reputation | |

## ANNEX C – ENVIRONMENT AND SOCIAL RISK MANAGEMENT SYSTEM: FOR OPERATIONAL RISK MANAGEMENT

Note: This will be superseded by the RCSA for E&S Risk

**ANNEX D – RISK MANAGEMENT, POLICIES RELATED TO E&S RISK**

The ESRMS shall adopt the existing policies, tools, and programs of the Bank related to E&S risk such as, but not limited to the following:

| Topic in Existing Manual | SFF Compliant (Y/N/NA) | Description | Page Number |
|---|---|---|---|
| **ADMIN MANUAL** – Chapter XII: Bank House Rules (Safety and Security Policies, Sanitation and Cleanliness) | Y | All employees who use electrically operated office equipment shall be responsible for putting off the equipment after use or unplugging it at the end of the working hours. | p. 180 |
| **ADMIN MANUAL** – Chapter XVI: Guidelines on Operation / Usage of Airconditioning System in Head Office (HO Cir. 02-059/2019)<br><br>Chapter XVIII – Guidelines on Operation / Usage of Airconditioning System in Branches (Brs. Cir. 02-067/2019) | Y | The air-con shall be operated during regular office hours and on justified non-regular workhours based on an approved Work Extension Form. | p. 234<br><br>p. 254 |
| **SOCIAL MEDIA POLICY** - E. Content Management / F. Privacy, Permissions and Confidentiality of Contents or Information / J. Security | Y | Private information or any information privately shared by a Bank employee using a personal account, or shared to the Bank through private channels shall be presumed private and shall not be shared or publicly used by the Bank without the consent of the user; | p. 6 |
| **DATA PRIVACY MANUAL** – Accountability and Protecting Privacy | Y | UCPBS acknowledges its accountability and responsibility in protecting the privacy of personal data under its custody. Through its Data Protection Officer (“DPO”), UCPBS ensures that all clients who apply for or avail any of its products and services, including those who have established or proposed to establish a relationship with UCPBS, are properly apprised on how UCPBS processes and stores customer information. | p. 3 |
| **MTPP MANUAL** - Environment and Social Risk Safety and Security | Y | Under II. Objectives:<br><br>Under III. Basic Principles and Policies: | p. 5<br><br>p. 6 |

| Topic in Existing Manual | SFF Compliant (Y/N/NA) | Description | Page Number |
|---|---|---|---|
| **CAID MANUAL** – Land Valuation | Y | **Land Valuation** | p. 19 |
| **CAID MANUAL** - Real Estate Properties Not Acceptable as Collaterals | Y | **Real Estate Properties Not Acceptable as Collaterals** | pp. 19 – 20 |
| Credit Risk Manual to include E&S | Y | VI. Credit Risk Control/Mitigation<br>A. Appropriate Credit Risk Environment<br>B. Sound Credit Granting Process | pp. 45-52 |
| **HR MANUAL** – FRINGE BENEFITS | | The bank provides a health benefit program to help defray the hospitalization, medical treatment and consultation expenses. The benefit plan is designed to help maintain an associate and family's health.<br><br>In order to promote health, prevent illness and protect other associates from potential health hazards in the workplace, USB has designed organized and various health and wellness programs through HRD. | pp. 40 - 46 |

## ANNEX E - RISK OVERSIGHT COMMITTEE (ROC) CHARTER

### I. OVERVIEW

The Bangko Sentral ng Pilipinas (BSP) issued on 04 October 2004, Circular No. 456, series of 2004 amended the Specific Duties and Responsibilities of the Board of Directors, and required the establishment of the RISK OVERSIGHT COMMITTEE (RISKCOM). Said Circular was later amended with the issuance of BSP Circular 969 on 22 August 2017 to strengthen corporate governance in BSP supervised financial institutions by amending relevant provisions to align existing regulations with the Code of Corporate Governance for publicly listed companies issued by the Securities and Exchange Commission as well as with the best practices and standards issued by globally recognized standard setting bodies. Several updated guidelines were also issued detailing the duties of the Board of Directors under each risk management category such as BSPc900 s2016 (Operational Risk), BSPc951 s2017 (BCP), BSPc981 s2017 (Liquidity Risk), BSP c982 (Information Security), BSP c1019 (Technology and Cyber Risk) and BSPc1044 s2019 (IRRBB and Market Risk).

Consistent with the regulatory enhancements and to align and address the need for a comprehensive and advanced risk management brought about by industry changes and trends, information technology, banking environment, new products, and other emerging risks, this UCPB Savings RiskCom Charter was amended. This Charter shall be reviewed annually or as the need arises to determine whether its responsibilities are adequately described, and policies are amended, if necessary, in order to adapt to future risks that the Bank may be exposed to.

### II. PURPOSE

This Charter shall serve as the basis for the ROC in the performance of its mandated functions. Among others, it provides the composition, authority, duties and responsibilities of the ROC as provided for under BSP Circular No. 969 and all related risk management circulars.

### III. COMPOSITION

The ROC 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 ROC shall possess a range of expertise as well as adequate knowledge of risk management issues and practices to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall have access to independent experts to assist it in discharging its responsibilities.

The Board shall appoint the members of the ROC. It shall also appoint one of these members as the Chairperson of the Committee. More than 50% of the members shall be present to form a quorum.

The following shall be considered in the composition of the Committee members:

1. The ROC chairperson shall not be the chairperson of the Board of Directors, or any other board-level committee.

2. At least one of the Committee members shall be a member of the Audit Committee.

3. An independent director shall refer to a person who will be able to devote sufficient time to effectively carryout his duties and responsibilities.

4. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board of directors to the greatest extent possible. 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 committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance, Related Party Transactions committees, without prior approval of the Monetary Board.

5. The ROC shall ensure that appropriate records (e.g., minutes of meetings or summary of matters reviewed and decision taken) of their deliberations and decisions are maintained. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.

## IV. ROLE

The ROC shall be primarily responsible for:

1. Fulfilling statutory, fiduciary and regulatory responsibilities.

2. It shall advice the Board of Directors, of the overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement.

3. Ensure alignment of risk management objectives with overall business strategies and performance goals.

4. Report on the state of the risk culture of the Bank by developing and overseeing the risk management programs of the Bank which include the following:

   a. Oversee the Bank's **risk management framework**.

      1) The Committee shall oversee the enterprise risk management framework and ensure periodic review of the effectiveness of the risk management systems and recovery plans;

      2) Ensure that corrective actions are promptly implemented to address risk management concerns.

   b. Oversee adherence to risk appetite.
      1) The Committee shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite;

2) 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.

c. Oversee the risk management function and approval of proposals regarding the Bank's policies, procedures and adoption of best practices relative to asset and liability management, credit, market, interest rate, liquidity and business operations risks, among others, ensuring that:

    1) Risk Management systems are in place;

    2) Limits/tolerance levels are observed;

    3) System of limits remain effective; and

    4) Immediate corrective actions are taken whenever limits are breached or whenever necessary.

d. Ensuring compliance to written policies and procedures relating to the management of risks throughout the Bank.

    This shall include:

    1) Comprehensive risk management approach;

    2) Detailed structure of limits, guidelines and other parameters used to govern risk-taking units;

    3) Clear delineation of lines of responsibilities for managing risk;

    4) Adequate system for measuring risk; and

    5) Effective internal controls and a comprehensive risk reporting process.

e. 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 oversee the risk-taking activities of the Bank*;* and

f. Oversee the continuing education program to enhance its members' understanding of relevant regulatory and banking industry issues.

## V. AUTHORITY

The ROC shall exercise authority over matters within the scope of its functions and responsibilities. It is empowered to:

1. Approve the risk management program prepared by Risk Management Division (RMD);

2. Exercise functional supervision over RMD. Administrative supervision of RMD shall be under the President and CEO;

3. Serve as direct channel of communication to the Chief Risk Officer, Heads of Credit Risk Management Unit (CRMU), Market and Liquidity Risk Unit (MLRU) and Operations Risk Management Unit (ORMU), Information Security and Technology Risk Management Unit (ISTRMU)

4. Endorse the manpower complement, organizational structure and leveling of positions of the RMD consistent with the Bank's organizational policies and manpower guidelines;

5. Authorize investigations or verifications into any risk-related matters or obtain any information of the Bank within the Committee's scope of responsibilities;

6. Approves and endorse to the BOD risk management policies, procedures, strategies and risk limits and require implementation of Committee instructions and recommendations;

7. Obtain advice and assistance from independent professional advisors to assist in carrying out its responsibilities as set forth in this Charter; and

8. Approve and endorse to the Board of Directors the Bank's Risk Control Self - Assessment (RCSA) Report

## VI. DUTIES AND RESPONSIBILITIES

### A. Core Duties and Responsibilities

The ROC shall perform the following core duties and responsibilities:

1. **Identify and Evaluate Exposures**. The **ROC** shall:

   a. Assess the probability of each risk becoming reality and shall estimate its possible effect and cost with priority on those risks that are most likely to occur and are costly when they happen; and

   b. Identify and assess the external risks that may affect the business plans and directions of the Bank.

2. **Develop Risk Management Strategies.** The **ROC** shall

a. Develop a written plan defining the strategies for managing and controlling the major risks; and

b. Identify practical strategies to reduce the chance of harm and failure or minimize losses if the risks become real.

3. **Oversee the Implementation of the Risk Management Plan.** The ROC shall

a. Communicate the risk management plan and loss control procedures to affected parties; and

b. Conduct regular discussions on the Bank's current risk exposure based on regular management reports and direct concerned units or offices on how to reduce these risks.

4. **Review and Revise the Risk Management Plan, as Needed.** The ROC shall

a. Review and evaluate the steps that management has taken to monitor and control risk exposures to ensure its continued relevance, comprehensiveness and effectiveness;

b. Revisit strategies, look for emerging or changing exposures and stay abreast of developments that might affect the likelihood of harm or loss to the Bank;

c. Ensure that the risk infrastructure and operating policies are congruent with corporate policies on prudent risk management, and conform to regulatory, industry and technological standards, trends and best practices.

5. Report regularly to the Board of Directors the Bank's overall risk exposure, actions taken to manage/mitigate the risks and recommend further actions or plans as necessary.

6. Review and evaluate the Bank's annual Risk Control Self -Assessment (RCSA) Report and endorse to the Board for approval;

7. Oversee the implementation of the Bank's **Business Continuity Process (BCP)** which involves the creation and promotion of an organization-wide culture that places high priority on business continuity;

8. Approve, review and update the ROC Charter whenever there are significant changes therein; and

9. Oversee Senior Management's adherence to the risk appetite statement.

**B. Specific Duties and Responsibilities**

The ROC shall perform the following specific duties and responsibilities:

1. The ROC shall meet with, request/gather (or compel submission, in proper cases), receive and evaluate information from management and appropriate sources and act or endorse for approval of the Board of Directors, or approve proposals in accordance with its core duties and responsibilities on the following items relating to:

   a. **Asset and Liability Management**
      - Fiduciary and asset management activities, including oversight structure for fiduciary activities, general policies and reports;
      - Capital allocation methodology;
      - Capital levels; and
      - Status of the investments and securities portfolio and end-user derivatives portfolio, including performance, appreciation or depreciation profile and accounts.

   b. **Liquidity Risk**
      - Liquidity position and liquidity gaps;
      - Bank's strategic direction and tolerance for liquidity risk;
      - Liquidity risk limits and guidelines;
      - Implementation of corrective action in instances of breaches in **limits**, policies and procedures;
      - Contingency plans for dealing with potential temporary and long-term liquidity disruptions; and
      - Sufficiency of competent personnel, including internal audit staff, and adequate measurement systems to effectively manage liquidity risk.

   c. **Market Risk** (BSPc1044 s2019)
      - The nature and level of market risk profile; business strategies for the trading book and the market risk exposure resulting from the trading activities;
      - Policies and procedures on market risk, risk measurement tools, models and methodologies used, limit structure, monitoring and control procedures among others;
      - Risk tolerance/risk limits/limit setting; ensuring that the level of market risk is maintained within tolerance and at prudent levels, and supported by adequate capital.
      - Trends in economy in general with a view of their impact on the Bank; information on the "Value-at-risk" calculation, back-testing results and sensitivity of exposure to risk factor movements, result of stress test and impact to earnings and capital.
      - Information relating to compliance with both external and internal regulations regarding market risks.

   d. **Credit Risk**
      - Policies and Procedures on credit risk;
      - Comprehensive assessment of creditworthiness of all types of borrowers;
      - Specific loan portfolios and/or industries;

- Non-performing assets and Real and Other Properties Acquired (ROPA) by the Bank, charge-off level and adequacy of the allowance for loan and lease losses;
- Bank's limits on lending, such as industry concentration limits and investing limits; and
- Information relating to compliance with both external and internal regulations regarding credit risks.

**e. Operational Risk**

- Policies and procedures on operational risk matters e.g., technology, information security, cyber risk, environmental and social risk (E&S) legal, reputation and personnel risks;
- Management reports relating to operational issues;
- Awareness on proper risk culture and how risks should be addressed;
- Information relating to compliance with both external and internal regulations regarding operational risks; and
- Implementation of the Bank's Business Continuity Process (BCP) which involves the creation and promotion of an organization-wide culture that places high priority on business continuity;

2. Promote a **risk culture** that requires and encourages the highest standards of ethical behavior by risk management overseers

3. Monitor and evaluate the independence of risk management functions throughout the Bank;

4. Monitor effectiveness of risk management functions, regularly updating the design and operating effectiveness of such controls;

5. Ensure that infrastructure, resources and systems are in place for risk management and are adequate to maintain satisfactory level of risk management discipline;

6. Review issues raised by internal audit that impact on risk management framework;

7. Meet with, request the submission of and evaluate information from the Management Committee and other committees of the Bank; and perform/approve the necessary actions/proposals as it deems appropriate, regarding the scope of its work, significant findings, together with the actions and responses of management;

8. Oversee the management of future risks rather than risk in past transactions;

9. Recognize those risks and institute contingency plans to mitigate said risks;

10. Provide regular periodic reports to the Board of Directors pertaining to the Bank's overall risk exposure and actions taken to reduce the risks;

11. Encourage the professional development and training of personnel engaged in both risk oversight and risk-taking activities; and

12. Review and reassess the adequacy of this Charter on an annual basis and recommend any proposed changes to the Board of Directors for approval.

## VII. MEETINGS AND PROCEDURES

1. The ROC shall establish its own rules of procedures consistent with the Bank's Charter and this Charter.

2. The ROC shall meet at least once every month or as often as it considers necessary and appropriate.

3. More than 50% of the ROC members shall be present to form a quorum. If the Chairman is not available, he/she may designate a member to preside the meeting. Otherwise, the two members present who constitute a quorum may elect a temporary chairman.

4. An annual calendar shall be prepared to plan meetings, address issues and align with planning and reporting cycles.

5. A notice of meeting confirming the date, time and venue shall be forwarded to each member of the ROC at least five (5) banking days before the date of its meeting.

6. Information packages (i.e., agenda, minutes of the previous meeting and relevant supporting documents on the items to be discussed) shall be forwarded to each member of the ROC at least three (3) calendar days before the date of its meeting.

7. The Risk Management Division (RMD) shall serve as the Secretariat of the ROC and shall keep written minutes of its meetings.

8. Participation of the ROC members may likewise be in person or through modern technologies (virtual attendance) as deemed necessary under certain situations such as but not limited to teleconferencing and video conferencing as long as the Director who is taking part in said meetings can actively participate in the deliberations on matters taken up.

9. The ROC members shall physically or virtually participate in at least 50% of meetings of every year.

10. Attendance and participation of the ROC members in committee meeting shall be considered in the assessment of continuing fitness and propriety of each director as member of the ROC.

11. The ROC may request any directors, officers or employees of the Bank, or other persons whose advice and counsel are sought by the latter to attend any meeting in order to provide information as it deemed necessary.

## VIII. INDEPENDENCE OF ROC

The ROC shall be an independent Committee and for that purpose it shall report directly to, and hold the authority of the Board of Directors.

## IX. CHARTER EFFECTIVITY

This Charter shall take effect upon approval by the ROC and confirmation by the UCPB Savings Bank Board.

## ANNEX F – TABLE OF ORGANIZATION – RISK MANAGEMENT DIVISION