

LANDBANK RISK MANAGEMENT

Philosophy and Culture (ARAC I.5.a)

Risk Management (RM) goes hand-in-hand on co-equal footing with LANDBANK's business strategy. The Bank has adequate RM framework, policies, and internal controls. The RM systems, processes and procedures are continuously reviewed and updated with the guidance and active participation of the LANDBANK Board, Risk Oversight Committee (RiskCom) and Senior Management. **(GCG III.21)**

The Bank's core RM philosophy is to balance risk and reward by maximizing business opportunities, operating within the risk threshold and minimizing losses beyond its appetite. RM is also embedded in all the business processes of the Bank and it ascertains that risk-taking is commensurate with its risk appetite.

The Bank's RM completes the triumvirate of audit and compliance functions which focus on the risk controls of the Bank. Together with internal audit and compliance, the synergy of the three functions provides credence to the role of the Bank's corporate governance in implementing an effective RM framework.

Results of audit engagements disclosed that the Bank's overall internal control, risk management, and compliance processes provide reasonable assurance that the operating objectives are met in the areas of: (1) efficiency and effectiveness of operations; (2) reliability, timeliness, and transparency of internal and external information; and (3) compliance with laws, regulations, bank policies, and contracts. **(GCG 111.27.d)**

LANDBANK's RM approach is governed by the Board-approved Enterprise RM (ERM) anchored on its mission, vision and strategic objectives. The LANDBANK's implementation of the ERM system with defined pro-active RM departs from silo approach. Thus, RM is implemented cross-functionally across the entire organization with active participation of the Board, Senior Management and all business units (BUs) of the Bank including the Subsidiaries. ERM is implemented in three levels namely strategic, portfolio and transactional levels. **(ARAC I.5.b)**

At the Strategic Level, the LANDBANK Board through the RiskCom and Senior Management, are actively involved in an enterprise-wide RM oversight which involves formulation and approval of RM framework, policies and strategies, internal controls, and RM system as well as the annual review thereof. **(ARAC II.B.1 & GCG III.27.a)** The LANDBANK Board and Senior Management are also involved in an organizational-wide risk monitoring which is used as basis for decision-making and review of LANDBANK's controls/mitigating measures (operational, financial and compliance control) and RM system. **(GCG III.27.b)**

CLASS D

Annex A

At the Portfolio Level, the Groups and Departments oversee the implementation of policies and processes and monitor possible breaches. RM Group (RMG) recommends policies, processes and revisions based on risk reports submitted by the risk-taking BUs to address risk occurrences that cannot be solved at the level of the risk-taking BUs.

At the Transactional Level, the Authorized Risk Takers (ARTs) who act as the first line of defense are involved in the actual implementation of risk policies and procedures. The ARTs embrace the continuous management of risk events and immediately escalate policy breaches, procedural infractions and related risk occurrences that cannot be solved at their level to the Department or Group Heads.

Risk Governance Framework

RM involves the oversight function covering risk identification, assessment, measurement, control, monitoring and reporting of risks inherent in all activities of the Bank. The RMG, as an independent unit, performs the oversight function for all major risk areas (credit, market, operational, compliance, interest rate in the banking book, counterparty credit, liquidity, reputation, strategic, subsidiaries, trust operations, Information Technology ^[IT], related party transactions risk, among others) of the Bank. RMG reports functionally to the RiskCom and administratively to the President and Chief Executive Officer (CEO) of LANDBANK. (ARAC I.5.c)

On 30 September 2022, the LBP RiskCom approved the updated Volume 1 Risk Governance Framework Manual which highlights the following:

- Addition of new/emerging risks in the Bank's Risk Universe and Risk Dictionary i.e., Environmental & Social Risk, Physical Risk, Transition Risk
- Duties and responsibilities of all key players in managing Environmental & Social Risk which covers sustainability principles
- RM implementation Framework
- Embedded the management of Environmental and Social Risk in all the elements of the Bank's RM Framework as follows:
 - Active and appropriate Board and Senior Management oversight
 - Adequate risk management policies and infrastructure
 - Appropriate Risk Identification, Risk Measurement and Evaluation, Risk Control and Risk Monitoring
 - Comprehensive internal risk controls and independent audit
 - Active participation and communication of Authorized Risk Takers / Business Units
- Integrated Risk Management Strategies

Subsidiaries Risk Management

Part of the Bank's Risk Governance Framework involves managing risks residing in LANDBANK Subsidiaries and Foundation.

The Bank provides RM oversight to LANDBANK Subsidiaries and Foundation (LSFs) acknowledging that their operations also bear impact on the Bank's financial statements. It monitors and reports risk exposures of the LANDBANK Subsidiaries and Foundation through the submission of consolidated financial reports.

RM oversight to the LSFs is also an essential component of corporate governance of LANDBANK, which ensures an integrated perspective of risk exposures, both at disaggregated and aggregated level. It is a means of improving the Bank's business and services on a group-wide activity that involves LANDBANK as Parent Bank and its eight wholly-owned Subsidiaries and Foundation:

1. Overseas Filipino Bank (OFBank)
2. LBP Leasing and Finance Corporation (LLFC)
3. LBP Insurance Brokerage, Incorporated (LIBI)
4. LBP Resources and Development Corporation (LBRDC)
5. LBP Countryside Development Foundation, Incorporated (LCDFI)
6. UCPB Savings Bank (USB)
7. UCPB Lending and Leasing Corporation (ULFC)
8. LANDBANK Securities, Incorporated (LSI)

RM Program for Subsidiaries (RMPS)

The RMPS includes relevant methodologies, processes and tools which guides the LSFs in implementing a robust RM on a group-wide basis. It embodies the respective RM Framework of the LANDBANK Subsidiaries and Foundation which covers the following:

1. RM Policy, Structure, Roles and Responsibilities
2. Risk Management Approaches
3. The Enterprise Risk Management Approach
4. Risk Management Culture Development in LBP Subsidiaries

In 2022, the following enhancement of the RMPS was approved by the LBP RiskCom which enabled LBP as Parent Bank to strengthen its RM oversight on its eight LBP Subsidiaries:

1. Inclusion of the three UCPB Subsidiaries in the RM oversight coverage
2. Inclusion of Environmental and Social Risk Management and Business Continuity Management
3. Enhancement of the roles and responsibilities of key players

4. Provision for customization of ERM tools and templates based on the size, risk profile, nature/scope of business operations of the LSF

RMPS implementation enables the LSFs to mirror the RM Framework and policies of LANDBANK as their Parent Bank, in compliance with the Bangko Sentral ng Pilipinas (BSP) Circular No. 971 dated August 22, 2017 "Guidelines on Risk Governance". The RMPS also takes into consideration the diversity of LANDBANK Subsidiaries and Foundation's mandate, nature of business operations, structure, risk appetite and other variables.

Pursuant to BSP Circular 900 s. 2016 or "Guidelines in Operational Risk Management" and as part of LBP's RM oversight to LSFs, the Bank maintains and regularly updates the Subsidiaries Operational Risk & Loss Database which includes the data on operational risk events based on the Basel II Operational Risk Events categories as follows:

1. Internal Fraud
2. External Fraud
3. Employment Practices & Workplace Safety
4. Damage to Physical Assets
5. Business Disruption & Systems Failures
6. Execution, Delivery & Process Management
7. Clients, Products and Business Practice
8. Other risk events not classified under the Basel II category, i.e., Environmental & Social Risk, Violation of Data Privacy Act (DPA) RA 10173

Said database includes relevant information on the risk events encountered by the LSFs and its relative amounts of actual losses, potential losses or near misses and mitigating measures.