

## **LANDBANK RISK MANAGEMENT**

### **Philosophy and Culture**

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.


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.

LANDBANK's RM approach is governed by the Board-approved Risk Governance Framework, which is anchored on the Bank's mission, vision and strategic objectives. LANDBANK's implementation of the Risk Governance Framework with defined pro-active RM departs from the silo approach. Thus, RM is implemented cross-functionally across the entire organization with active participation of the LANDBANK Board, Senior Management and all business units (BUs) of the Bank including the LANDBANK Subsidiaries and Foundation (LSFs). Risk Management is implemented in three levels namely strategic, portfolio and transactional levels.

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. 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.

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At the Portfolio Level, the Groups and Departments oversee the implementation of policies and processes and monitor possible breaches. Risk Management 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. 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, 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.

The Volume 1 Risk Governance Framework Manual highlights the following:

- Identification of new/emerging risks in the Bank's Risk Universe and Risk Dictionary (i.e., Environmental and Social Risk, Physical Risk, Transition Risk)
- Duties and responsibilities of all key players in managing Environmental and Social Risk which covers sustainability principles
- RM implementation Framework
- 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 LSFs.

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The Bank provides RM oversight to LSFs acknowledging that their operations also bear impact on the Bank's financial statements. It monitors and reports risk exposures of the LSFs 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 in the pursuit of its business goals and objectives:

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
1. (LCDFI)
6. UCPB Savings Bank (USB)
7. UCPB Leasing and Finance Corporation (ULFC)
8. LANDBANK Securities, Incorporated (LSI)


### **RM Program for Subsidiaries (RMPS)**

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

The RMPS enables LANDBANK as Parent Bank to strengthen its RM oversight on its eight subsidiaries which covers identification of material risk exposures residing in the LSFs, facilitating impact assessment of said risks and monitoring actions taken by LSFs to mitigate these risks. Risk issues escalated/reported to the Subsidiaries Risk Oversight Committee by the LSF's respective RM function is likewise being escalated/reported to the LANDBANK RiskCom for reference/recommendation as part of RM oversight.

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 Aug. 22, 2017 "Guidelines on Risk Governance". The RMPS also takes into consideration the diversity of LSF's mandate, nature of business operations, structure, risk appetite and other variables.

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Pursuant to BSP Circular 900 s. 2016 or "Guidelines in Operational Risk Management" and as part of the LANDBANK's RM oversight to LSFs, the Bank maintains and regularly updates the Subsidiaries

Operational Risk and 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.


### **Internal Capital Adequacy Assessment Process**

LANDBANK as one of the major players in the banking industry annually conducts a thorough and comprehensive Internal Capital Adequacy Assessment Process (ICAAP) to determine the quality and adequacy of its capital, given the existing risk exposures as well as future risks arising from growth, new markets and expansion of the product portfolio.

To align with the local and global best practices, the LANDBANK Board and Senior Management performed collaborative governance and provided directions to enhance the ICAAP development and RM processes, and to strengthen the capital position of the Bank with the following enhancements:

- Updated the following:
  - Risk Appetite Statement
  - Materiality Threshold for Pillar 1 and 2 risks
  - Early Warning Indicators and triggers as required by the BSP
  - Qualitative and quantitative Bank-wide stress testing of Pillar 1 and Pillar 2 Risks
  - Included Market Outlook section to provide forecasted expectations for how well the economy will perform during the year
- Conducted enterprise-wide stress testing to provide severe scenarios that encompass all underlying risks and their interrelationships, potentially impacting both the Bank's capital and liquidity

### **Internal Capital Adequacy Assessment Process Culture**

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The ICAAP is embedded in the Bank's operating philosophy and has been cascaded down to the BU level, forming an integral part of the Bank's risk management process. This process enables the LANDBANK Board and Senior Management to assess all the risks that are inherent in the daily activities of the BUs on a continuing basis.

All BUs of the Bank are aware of the corresponding capital charge for the losses that could arise from any transaction or business they undertake. In monitoring the efficient performance of the BUs across the organization in risk management and capital utilization, the Bank adopts a rigorous escalation and thorough monitoring process via regular reports on actual losses versus estimated losses for each risk category established in the ICAAP.

## Strengthening Capital Planning

For 2023, LANDBANK's capital was strong and sufficient to deliver its mandated services and to cover the risks inherent in its operations. Under the most probable scenario, the Bank estimated the 2023 year-end Common Equity Tier (CET) 1 ratio at **15.11%**.

As of Dec. 31, 2023, LANDBANK's consolidated CET1 ratio and Basel III Leverage Ratio (BLR) stood at 15.54% and 6.94%, respectively. The Bank's ratios are well within the regulatory limits.

LANDBANK's General Policy on Capital Planning was enhanced to establish capital levels that will adequately support the Bank's vision and ensure continued compliance with the evolving capital and capital ratio requirements of the BSP.

LANDBANK always maintains a strong capital base to boost customer confidence, enhance competitiveness, ensure stability, and sustain long-term growth and viability. As such, the Bank continues to adhere with BSP's policies, rules and more specifically, comply with regulatory requirements on capital structure and capital adequacy.

The major initiatives to achieve strong capital are as follows:

- Improve profitability from more diversified income sources for strong capital and institutional sustainability
  - Maintain healthy net interest margins of loans and investments
  - Increase the transaction volume from digital channels
  - Cost reduction measures through process optimization
- Constant review and rebalancing of the Bank's loan and investment portfolios to maximize returns from its risk-taking activities
- Optimize bank resources for higher returns, while supporting green, national and local government programs
  - Improve Loans-to-Deposit Ratio (LDR) to optimize fund utilization
  - Growth in loans to renewables, local government units and priority sectors

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## ➤ Reduction of Non-Performing Loans (NPL) and ROP

The Bank shall likewise continue to vigorously preserve capital to sustain developmental pursuit and service its mandated clients while maintaining acceptable Return on Equity (ROE) comparable with the average ROE of the industry.

The Bank strictly manages its income-generating assets by managing the Risk Weighted Assets via diversification of loan portfolio, review of loans/provision of reserves in a timely manner, compliance with regulatory ratios, internal limits and risk appetite, strict monitoring of clean large exposures and Directors, Officers, Stockholders and Their Related Interest (DOSRI) loans and timely calibration of credit and market risk measurement tools.

## **Credit Risk Management**

Credit risk arises from the failure of a counterparty to meet the terms of any contract with the Bank. Credit risk is not limited to the loan portfolio but is found in all the Bank's activities where success

depends on counterparty, issuer, or borrower performance. It arises any time the Bank's funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. The Bank considers its loan portfolio as the major source of credit risk. However, other sources of credit risk exist throughout the activities of the Bank, including the banking and trading books and On- and Off-Balance Sheet transactions.

## **Maximum Credit Risk Exposure**

The table below shows LANDBANK's maximum exposure to credit risk, before and after considering eligible collateral held or other credit enhancements.

On-Balance Sheet (BS) Items	2023 (In ₱ Millions)							
	CEA	0%	20%	50%	75%	100%	150%	TOTAL
Cash on Hand	55,462	55,462	-	-	-	-	-	55,462
Checks & Other Cash Items (COCI)	17	-	17	-	-	-	-	17
Due from Bangko Sentral ng Pilipinas (BSP)	410,033	410,033	-	-	-	-	-	410,033
Due from Other Banks	7,310	-	186	7,108	-	16	-	7,310
Debt Securities Designated at FVTPL	16	-	-	-	-	16	-	16
Other Financial Assets Mandatorily Measured at FVPL	1,111	-	-	-	-	1,111	-	1,111
Financial Assets at FVOCI	456,972	384,611	3,039	67,279	-	2,042	-	456,972

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<b>Debt Securities at Amortized Cost</b>	<b>763,738</b>	<b>737,520</b>	<b>6,242</b>	<b>18,401</b>	<b>-</b>	<b>1,574</b>	<b>-</b>	<b>763,738</b>
<b>Loans &amp; Receivables</b>	<b>1,094,520</b>	<b>-</b>	<b>11,558</b>	<b>30,342</b>	<b>69,925</b>	<b>948,576</b>	<b>34,118</b>	<b>1,094,520</b>
1. Interbank Loans Receivables	73,932	-	11,246	12,196	-	50,468	23	73,932
2. Loans & Receivables - Others	1,020,588	-	313	18,146	69,925	898,109	34,095	1,020,588
a. Non-defaulted exposures								-
a.1. Sovereign Exposures	-	-	-	-	-	-	-	-
a.2. LGUs and Public Sector Entities	104,642	-	-	-	-	104,642	-	104,642
a.3. Government Corporation	1,800	-	-	-	-	1,800	-	1,800
a.4. Corporates	723,335	-	-	-	-	723,335	-	723,335
a.5. Microfinance/Small and Medium Enterprises	70,993	-	313	-	69,925	553	202	70,993
a.6. Loans to individuals for Housing Purposes	20,262	-	-	18,146	-	2,116	-	20,262
a.7 Loans to Individuals	60,821	-	-	-	-	60,821	-	60,821
b. Defaulted Exposures								-
b.1. Housing Loans	4,841	-	-	-	-	4,841	-	4,841
b.2. Other than Housing Loans	33,894	-	-	-	-	-	33,894	33,894
<b>Other Loans and Receivables <sup>1/</sup></b>	<b>250,322</b>	<b>250,322</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>250,322</b>
<b>Sales Contract Receivable (SCR)</b>	<b>1,708</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>536</b>	<b>1,172</b>	<b>1,708</b>
<b>Real &amp; Other Properties Acquired (ROPA)</b>	<b>12,501</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,501</b>	<b>12,501</b>
<b>Total Exposures Excluding Other Assets</b>	<b>3,053,710</b>	<b>1,837,949</b>	<b>21,042</b>	<b>123,131</b>	<b>69,925</b>	<b>953,873</b>	<b>47,791</b>	<b>3,053,710</b>
<b>Other Assets</b>	<b>88,070</b>	<b>257</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>87,813</b>	<b>-</b>	<b>88,070</b>
<b>Total Exposures, Including Other Assets</b>	<b>3,141,780</b>	<b>1,838,206</b>	<b>21,042</b>	<b>123,131</b>	<b>69,925</b>	<b>1,041,685</b>	<b>47,791</b>	<b>3,141,780</b>
<b>Total On-BS RWA not covered by CRM</b>	<b>-</b>	<b>-</b>	<b>4,208</b>	<b>61,565</b>	<b>52,444</b>	<b>1,041,685</b>	<b>71,686</b>	<b>1,231,589</b>
<b>Total On-BS RWA covered by CRM</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>279</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>296</b>
<b>Total On-BS RWA</b>	<b>-</b>	<b>-</b>	<b>4,225</b>	<b>61,844</b>	<b>52,444</b>	<b>1,041,685</b>	<b>71,686</b>	<b>1,231,885</b>

<sup>1/</sup> Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions

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Off-BS Items	2023 (In ₱ Millions)							
	CEA	0%	20%	50%	75%	100%	150%	TOTAL
A. Direct credit substitutes	3,525	-	-	50	-	3,476	-	3,525
Risk-weighted amount	-	-	-	25	-	3,476	-	3,501
B. Transaction-related contingencies	95,393	-	-	-	-	95,393	-	95,393
Risk-weighted amount	-	-	-	-	-	95,393	-	95,393
C. Trade-related contingencies	5,267	-	-	4,073	-	1,194	-	5,267
Risk-weighted amount	-	-	-	2,037	-	1,194	-	3,231
D. Other commitments	-	-	-	-	-	-	-	-
Risk-weighted amount	-	-	-	-	-	-	-	-
Total Off-BS Exposures	104,185	-	-	4,123	-	100,062	-	102,124
Counterparty RWA in the Trading Book	CEA	0%	20%	50%	75%	100%	150%	TOTAL
Exchange Rate Contracts	2,787	2,223	-	26	-	538	-	551
Risk-weighted amount	-	-	-	13	-	538	-	551
TOTAL	2,787	2,223	-	26	-	538	-	551
Less: General Loan Loss Provision (in excess of the amount permitted to be included in Tier 2)	-	-	-	-	-	-	-	458
TOTAL	106,972	2,223	4,225	65,993	52,444	1,142,286	71,686	1,334,101

CEA: Credit Equivalent Amount Assets

CRM: Credit Risk Mitigant

RWA: Risk Weighted Assets

CRWA: Credit Risk Weighted

## Credit Exposures and Credit-Related Commitments

As of December 31, 2023, LANDBANK's Gross Loans & Receivables (GLR) amounted to P1,094,520 Million, net of credit risk mitigation which consists mainly of prime collaterals such as deposit holdout, government securities (GS) and sovereign guarantees. Majority of the exposures are Corporates, followed by Local Government Units (LGUs)/Public Sector Entities/Government Corporations and Small & Medium Enterprises (MSMEs) which stood at P723,335 Million (66.09%), P106,442 Million (9.72%) and P70,993 Million (6.49%), respectively. The Bank also holds substantial receivables from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions amounting to P250,322 Million.

On the other hand, the Bank has P104,185 Million outstanding Off-Balance Sheet Exposures. These exposures are mainly composed of general guarantees of indebtedness (e.g., financial standby letters of credit - domestic and foreign), performance bonds and warranties related to particular transactions, and contingencies arising from the movement of goods and trust transactions. Outstanding derivative exposures are mainly over-the-counter foreign exchange option contracts.

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The Bank's Total Credit RWA amounted to P1,334,101 Million which represents 88.40% of the Bank's Aggregate RWA of P1,509,177 Million.

## Management of Credit Risk

Credit RM aims to adequately manage the risk of financial loss arising from the failure of borrowers or counterparties to settle their obligations in accordance with the terms and conditions of the duly approved contractual agreement.

This involves the identification, measurement and monitoring of actual or potential losses and the implementation of appropriate measures, including the setting up of applicable limits to keep credit risk exposures within the Bank's risk appetite or the acceptable level of credit risk that it is willing to accept in pursuit of its lending plans and programs.

The Bank also manages the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions and the correlation of credit risk with other risks. The effective management of credit risk is a critical component of a comprehensive approach to RM and essential to the long-term success of the Bank.

The Bank manages credit risk through a structured framework duly approved by the LANDBANK Board that sets out policies and procedures covering the identification, measurement, control, and monitoring of credit risk. Accordingly, approval of credit application goes through prescribed loan approving levels which, depending on the transaction or amount of loan applied, could be elevated to the Credit Committee a Management-level Committee, the Investment & Loan Committee (ILC) and up to the LANDBANK Board, whenever applicable. The approval process also covers proposed remedial actions aimed at helping problem accounts regain normal operations. The Bank has put in place a comprehensive set of credit policies through the issuance of Credit Manuals, Credit Policy Issuances (CPIs) and Credit Bulletins (CBs). As the Bank's middle office for credit risk, the Credit Risk Management Department handles credit risk oversight, risk measurement and risk rating of borrowers.

To effectively monitor and maintain the quality of its loan portfolio, the Bank conducts the Expected Credit Loss (ECL) calculation to assure proper loan classification and setting-up of valuation reserves. As of December 31, 2023, the Bank's net Non-Performing Loan (NPL) stood at P36,407.61 million or 2.47% of the total loan portfolio of P1,472,815.26 million.

## Credit Risk Rating

LANDBANK's Credit Risk Engine System (CRES) serves as the main platform for the automated development of statistically-based credit rating models which will be used to conduct credit ratings of borrowers to help determine their creditworthiness. The Bank undertakes continuing development and implementation of the CRES scoring facility to provide support to its ongoing initiatives for the adoption of applicable banking regulations and global best practices and approaches in Credit Risk Management.

The Bank has developed and implemented the following statistical-based credit scoring models using CRES:

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- Application Scoring Model for Individual Home Buyers
- Application Scoring Model for Salary Loan Availers
- Behavioral Scoring Model for LGUs
- Behavioral Scoring Model for MSMEs
- Behavioral Scoring Model for Large Enterprise
- Behavioral Scoring Model for Cooperatives
- Application Scoring Model for Credit Card
- Behavioral Scoring Model for Partner Financial Institutions (PFIs)

On the other hand, the Bank uses an internally developed expert-based credit rating system for Universal Banks, Commercial Banks, and Offshore Banks.

### **Credit Risk Monitoring**

The Bank has continuously adopted a formal reporting system for the LANDBANK Board and Senior Management to be able to monitor the credit quality of individual and loan portfolios using asset quality indicators such as past-due ratio, NPL ratio, level of non-performing assets, coverage ratio, concentration risk. Clean large exposures, breaches in regulatory and internal limits, potential credit risk, restructured loans, government accounts, exposures to the real estate sector, adverse news, credit migration, large exposure/single borrowers limit, DOSRI Loans, Related Party Transactions, Expected Credit Loss (ECL) calculation, ROPA, PFIs, and compliance with Uniform Stress Testing and Real Estate Stress Test (REST) are intensively monitored by the ILC and the Risk Oversight Committee (RiskCom). The recovery of written-off accounts is also on the radar of the LANDBANK Board, RiskCom and Senior Management.

### **Collateral and Other Credit Enhancements**

The Bank adopts cash flow lending principles and collateral is not the primary factor in granting credit. The required amount and type of collateral and other credit enhancements to mitigate credit exposures depend primarily on the results of the holistic and prudent credit assessment. When needed, the Bank diligently evaluates the enforceability, realizable value, and marketability of offered collaterals. The Bank's Credit Manual and CPIs provide guidelines on the acceptability of loan collateral and maximum valuation for each type of collateral.

The primary collaterals accepted are Holdout on Deposits, Government Securities, Real Estate Mortgage and Chattel Mortgage. The Bank also accepts government guarantees, cross suretyship from corporations and other eligible guarantees. In the case of agricultural and agriculture-related loans that are vulnerable to the effects of climate and weather disturbances, borrowers are encouraged to avail of crop insurance guarantees and other insurance mechanisms to shield them from these risks.

### **Credit Stress Test**

LANDBANK regularly conducts stress testing of individual large exposure and its loan portfolio, taking into account plausible risk events with a high probability of

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occurrence. Utilizing such scenarios with documented assumptions, tests are done to determine the magnitude of impact on the Bank's loan portfolio, on the Credit RWA, and finally on the Common Equity Tier 1 (CET1) Ratio. Stress testing also includes prescribed regulatory tests such as Uniform Stress Testing and REST. Likewise, various loan portfolio assessments and reviews are conducted to determine the impact of a certain event and government regulation on the Bank's loan portfolio, past due ratio and CET 1. Results of the stress testing, together with the action plans, are escalated to the ILC and RiskCom.

## **MARKET RISK MANAGEMENT**

### **Market Risk Management Framework**


LANDBANK is exposed to market risks in both its trading and non-trading banking activities. The Bank assumes market risk in market making and position taking in government securities and other debt instruments, equity, Foreign Exchange (FX) and other securities, as well as, in derivatives or financial instruments that derive their values from price, price fluctuations and price expectations of an underlying instrument (e.g., share, bond, FX or index). The Bank's exposure on derivatives is currently limited to currency swaps and currency forwards to manage FX exposure. The Bank is also exposed to derivatives that are embedded in some financial contracts, although, these are relatively insignificant in volume.

The Bank uses a combination of risk sensitivities, Value-at-Risk (VaR), stress testing, Common Equity Tier 1 (CET1) ratio and capital metrics to manage market risks and establish limits. The LANDBANK Board, RiskCom and the Asset and Liability Committee (ALCO), define and set the various market risk limits for each trading portfolio. The Treasury and Investment Banking Sector (TIBS), particularly the Financial Markets Group (FMG) which manages the Bank's trading units as well as the Asset and Liability Management Group (ALMG) which manages the liquidity and reserve positions, conducts risk-taking activities within limits and ensures that breaches are escalated to the Senior Management for appropriate action.

A loss alert is activated whenever losses during a specified period equal or exceed specified level. The Bank controls and minimizes the losses that may be incurred in daily trading activities through the VaR and Stop Loss limits. Positions are monitored daily to ensure that these are maintained within established position limits to control losses. Position limits are subordinated to VaR and Stop Loss limits. Modified Duration is used to identify the interest rate sensitivity of the Bond Portfolio of the Bank. In the same way, certain subsidiaries of the Bank independently quantify and manage their respective market risk exposures by maintaining their respective system and processes in place.

### **Market Risk Weighted Assets**

As of Dec. 31, 2023, the LANDBANK's Total Market RWA stood at P17,635 million, broken down as follows:

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In P million	
PARTICULARS	AMOUNT
Interest Rate Exposure	2,679
Equity Exposure	1,913
FX Exposure	5,238
Options	7,805
<b>Total Market RWA</b>	<b>17,635</b>

The Total Market RWA represents 1.17% of the Bank's Aggregate RWA of P1,509,177 million.

### Managing Market Risk Components

Market Risk is associated to earnings arising from changes in interest rate, FX rates, equity and in their implied volatilities. Market risk arises in trading as well as non-trading portfolios.

The Bank manages the following key market risk components using its internal risk mitigation techniques:

#### 1. Interest Rate Risk in the Trading Book

Interest Rate Risk represents exposures to instruments whose values vary with the level or volatility of interest rates as a result of market making and portfolio taking. LANDBANK continues to manage interest rate risk in trading activities through factor sensitivities and the use of VaR and stress testing. Peso-denominated Debt Securities (Peso Debt) and Foreign-denominated Debt Securities (FS) are subject to daily mark-to-market and controlled through market risk limits.

#### 2. Equity Price Risk Management

LANDBANK is exposed to equity price risk resulting from changes in the levels of volatility of equity prices, which in turn affect the value of equity securities and impacts on profit and loss of the Bank. Equities are subject to daily mark-to-market and controlled through market risk limits.

#### 3. FX Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in FX rates. Using the Philippine peso as the functional currency, the Bank monitors daily the currency positions to ensure that these are within established limits.

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## Market Risk Measurement and Validation Tools

### 1. Value-at-Risk (VaR)

VaR is a statistical approach for measuring the potential variability of trading revenue. It is used to measure market risk in the trading book under normal conditions, estimating the potential range of loss in the market value of the trading portfolio, over a one-day period, at 99.0% confidence level, assuming a static portfolio.

The Bank uses the Historical Simulation Model in computing VaR of Equities, FS, Peso Debt, and FX trading portfolios as well as FX Net Open Position which is acceptable to BSP. Moreover, the Bank continuously pursues initiatives to improve its processes.

The VaR both at portfolio and across portfolio level are monitored. Daily VaR calculations are compared against VaR limits which is the monetary amount of risk deemed tolerable by Management. The Bank also determines Diversified VaR that takes into account the diversification effect in which all losses in all securities in a portfolio are imperfectly correlated.

### 2. Stress Test

RM models have recently become the main focus of RM efforts in the banking industry where banking activities are exposed to changes in fair value of financial instruments. However, the Bank believes that the statistical models alone do not provide reliable method of monitoring and controlling risk because these models (while relatively sophisticated) have several known limitations, at the same time, do not incorporate the potential loss caused by very unusual market events. Thus, the VaR process is complemented by Stress Testing to measure this potential risk.

Stress Test is a RM tool used to determine the impact on earnings and capital of market movements considered “extreme”, i.e., beyond “normal” occurrence. The Bank utilizes Stress Tests to estimate possible losses which the VaR does not capture.

The Bank’s Market Risk Stress Test analyzes the impact of major risks that emerge out of the different scenarios, considering adverse and probable risk events, on activities related to Treasury’s trading and investment portfolios. This seeks to establish how far the Bank can absorb certain levels of stress, to explore the events that could cause a significant impact to the Bank and to assess its vulnerabilities and capability to deal with shocks such as price risk, interest rate risk, and FX risk.



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### 3. Model Validation

#### *Back-Test*

LANDBANK adopts back-testing as the basic technique in verifying the quality of risk measures used by comparing actual trading results with model-generated risk measures.

Under the back-testing process, exception occurs if mark-to-market (MTM) and trading loss exceeds the result of the model-generated risk measure. The number of exceptions is noted and the model is classified into one of the three zones as follows:

ZONE CLASSIFICATION	NUMBER OF EXCEPTIONS
safe/green zone	zero to four exceptions
non-conclusive/yellow zone	five to nine exceptions
problematic/red zone	10 or more exceptions

Back-testing results are presented to the ALCO and the RiskCom which examine the actual performance of portfolios against VaR measures to assess model accuracy and to enhance the risk estimation process in general.

#### *Model Review*


Risk models used in managing market risk are subjected to model review being done by Risk Modeling and Quantitative Analytics Unit (RMQAU) of MLRMD. On the other hand, Internal Audit Group (IAG) is tasked to do model audit of RM models.

## **LIQUIDITY RISK MANAGEMENT**

### **Liquidity Risk Management Framework**

The Bank's liquidity RM process is consistent with its general Risk Management (RM) framework covering risk identification, measurement, monitoring and control. The policies and procedures that govern liquidity RM are reviewed and endorsed on a regular basis by ALCO and RiskCom for approval of the LANDBANK Board of Directors. The liquidity policy of the Bank is to always maintain fund availability and hence, to be in a position to meet all of its obligations, in the normal course of business.

The Bank considers liquidity risk based on market and funding liquidity risk perspectives. Trading or market liquidity risk refers to the inability to unwind positions created from market, exchanges, and counterparties due to temporary or permanent factors. It is the risk

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that the Bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or through market disruption.

Funding liquidity risk is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Bank. Funding liquidity risk is being monitored and controlled through the classification of maturities of assets and liabilities over time bands and across functional currencies as reflected in the Liquidity Gap Report (LGR).

The LANDBANK Board exercises oversight through RiskCom and has delegated the responsibility of managing the overall liquidity of the Bank to the Asset and Liability Committee (ALCO). The ALCO and the Treasury and Investment Banking Sector (TIBS) are responsible for the daily implementation and monitoring of relevant variables affecting the Bank's liquidity position. The ALCO review the assets and liabilities position on a regular basis and, in coordination with the TIBS, recommends measures to promote diversification of its liabilities according to source, instrument and currency to minimize liquidity risks resulting from concentration in funding sources.

The Risk Management Group (RMG), through the Market and Liquidity Risk Management Department (MLRMD) is responsible for the oversight monitoring of the Bank's liquidity risk positions and ensures that reports on the Bank's current risk are prepared and provided to ALCO and RiskCom in a timely manner.

The Bank performs a comprehensive liquidity risk measurement and control using the LGR, covering the bank-wide balance sheet, as a tool. Risk models used in liquidity RM are subjected to independent model validation as conducted by MLRMD - Risk Modeling & Quantitative Analytics Unit (RMQAU) and model audit by the Internal Audit Group (IAG).

## **Liquidity Risk Measurement**


The Bank manages the liquidity risk using the following tools:

### **1. Liquidity Gap Report (LGR)**

The Bank conducts liquidity gap analysis using the LGR. This risk measurement tool is used in identifying the current liquidity position and the Bank's ability to meet future funding needs. It categorizes balance sheet items according to cash flows from the Bank's assets and liabilities to determine any future mismatch such as long-term assets growing faster than long term liabilities.

MLRMD reports RBU (Peso and Foreign Exchange (FX) Regular), Foreign Currency Deposit Unit (FCDU), and Solo (Parent) LGR on a monthly basis to ALCO and RiskCom, respectively. Parent and Financial Allied Subsidiaries LGR is reported on a quarterly basis.

The following behavioral assumptions are used in measuring the Bank's liquidity gap:

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- Non-Maturing Deposits (NMDs): Using historical balances of NMD accounts, a behavioral analysis is conducted to determine the rate of deposit outflow per time bucket. The calculated deposit run-off rates are the basis for the withdrawal pattern or actual behavior of NMDs.
- Term Deposits (TDs): TDs were bucketed based on maturity with run-off assumption on the balance sheet. A behavioral analysis is conducted to approximate the early termination rate based on a historical deposit data. The early termination rate is used to estimate the amount of deposit that will be withdrawn before its maturity.
- Fixed Rate Loans: A behavioral analysis is conducted to estimate the percentage of loan balance that is likely to repay before the due date.
- Drawing Pattern of Credit Lines and Credit Cards: A behavioral analysis conducted to capture and estimate the drawing pattern for credit cards and credit line products.

As of Dec. 31, 2023, the Bank has in its possession a comfortable level of highly liquid assets and identified fund sources to cover for liquidity risk that may arise in the earlier tenor buckets. Most assets (particularly loans and investments) have long term maturities.

The Bank has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk, consistent with the nature and complexity of its business activities, overall level of risk and its risk appetite.


The Maximum Cumulative Outflow (MCO) limit set by the LANDBANK Board is one of the tools used to manage and control the liquidity risk in the Bank's gap report. MCO limits put a cap on the total amount of negative gaps in the '1 day to 1 year' time buckets.

## 2. Liquidity Stress Test

The Bank conducts regular stress testing and scenario analysis to further assess the Bank's vulnerability to liquidity risk. This activity supplements the risk models used by the Bank which simulates various probable to worst-case scenarios happening in the industry that would affect LANDBANK. The following are the stress testing conducted by the Bank:

- Liquidity Stress Test/Scenario Analysis
- FX Regular Stress Test
- FCDU Stress Test

## 3. Liquidity Coverage Ratio (LCR)

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The LCR is reported monthly to BSP to ensure that the Bank maintains an adequate level of unencumbered High Quality Liquid Assets (HQLA) to meet liquidity needs for a 30 calendar-day liquidity stress scenario.

The Bank computes the LCR using the BSP prescribed formula:

$$\text{LCR} = \frac{\text{Stock of HQLA}}{\text{Total Net Cash Outflow over the next 30 calendar days}}$$

Where:

**HQLA** - Refer to assets that can be converted easily and immediately into cash at little or no loss of value in private markets to meet the Bank's liquidity needs during times of stress.

**Total Net Cash Outflows** - Pertains to the sum of the stressed outflow amounts less the sum of the stressed inflow amounts, with the inflow amounts limited to seventy-five percent (75%) of outflow amounts.

PARTICULARS	31 December (In Million P)	
	2023	2022
High Quality Liquid Assets	1,888,272	1,813,654
Total Net Cash Outflows	983,301	854,680
LCR	192.03%	212.20%

As of Dec. 31, 2023, the Bank's LCR is higher than the 100% minimum requirement for the CY 2023.

## **INTEREST RATE RISK IN THE BANKING BOOK**

### **Interest Rate Risk in the Banking Book Management Framework**

Interest Rate Risk in the Banking Book (IRRBB) is the current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect banking book positions. LANDBANK's IRRBB arises from the core banking activities. The main source of this type of IRRBB is gap risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of the Bank assets, liabilities and off-balance-sheet positions.

The Bank manages IRRBB based on approved policies and procedures. LANDBANK uses Re-pricing Gap/Earning-at-Risk (EaR) and Economic Value of Equity-at-Risk (EVEaR) to analyze the impact of changes in interest rates to both future earnings and net worth.

The Bank has established guidelines for IRRBB limit setting. To control re-pricing risk, a limit has been set on the EaR, putting a cap on the magnitude of re-pricing gap in the balance

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sheet. The EaR limit defines the maximum level of loss in net interest income (NII) due to changes in interest rates. Breaching this limit would require adjustments to be made in the balance sheet profile of the Bank. RMG-MLRMD recommends interest rate limits in coordination with Asset and Liability Management Group (ALMG) and is approved by the Asset and Liability Committee (ALCO), RiskCom and the LANDBANK Board. On the economic value-based measure, the Bank compares the Equity level under various rate scenarios to the Equity at a base (or current) level to track change from base scenario.

The LANDBANK Board defines the Bank's risk appetite and approves business strategies relative to the management of IRRBB. It delegates to ALCO the establishment and management of the Bank's IRRBB position. The ALCO decides and allocates resources to manage IRRBB within the risk appetite set by the Bank. The TIBS ensures that ALCO's decisions pertaining to the management of structural IRRBB are implemented.

Internal Audit Group (IAG) is tasked to do model audit of Risk Management (RM) models. The conduct involves the review and evaluation of the effectiveness of the system and, where necessary, ensures that appropriate revisions or enhancements to internal controls are made.

In addition, model validation is also being done by the Risk Modeling and Quantitative Analytics Unit (RMQAU) of MLRMD to check for any enhancements or calibrations needed to the models.


To date, the Bank does not engage in hedging transactions.

## **Interest Rate Risk in the Banking Book Measurement Models**

The two complementary measures of the potential impact of IRRBB are as follows:

1. Earnings-Based Measure: The Bank uses the EaR to estimate changes in net interest income under a variety of interest rate scenarios over a 12-month horizon. As of Dec. 31, 2023, the NII impact of change in interest rates amounted to P30,777.34 million
2. Economic Value-Based Measure: The Bank uses the EVEaR to assess the impact of changes in interest rates over the remaining life of its assets, liabilities and off-balance sheet items. As of Dec. 31, 2023, the EVEaR impact of change in interest rates amounted to P9,872.22 million

Both measures are assessed to determine the full scope of the Bank's IRRBB exposure. Moreover, IRRBB is not managed in isolation. IRRBB measurement systems are integrated into the Bank's general risk measurement system and results from models are interpreted in coordination with other risks.

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The interest rate risk exposures of the Bank are measured and reported to the ALCO and RiskCom on a monthly basis. Parent and Subsidiary EaR and EVEaR are prepared on a quarterly basis.

## Key Behavioral and Modelling Assumptions

Behavioral assumptions enable the Bank to analyze how an instrument's actual maturity or re-pricing may vary from its contractual terms because of behavioral options. LANDBANK has established the following behavioral and modeling assumptions in the quantification of IRRBB:

### 1. Current Account and Savings Account (CASA) Repayment

Behavioral assumptions for deposits that have no specific maturity/re-pricing date such as Non-Maturing Deposits (NMDs) can be a major determinant of IRRBB exposures under the economic value and earnings-based measures. To determine the actual behavior of NMDs, the Bank analyzed its deposits for the past 10 years to estimate the proportion of core (stable) and non-core (non-stable) deposits.

### 2. Term Deposits subject to Early Termination

A behavioral analysis to estimate the amount of term deposits that will be withdrawn before its maturity.

### 3. Fixed Rate Loans subject to Prepayment


A behavioral analysis to estimate the percentage of loan balances that is likely to repay before the due date.

### 4. Drawing Pattern of Credit Lines and Credit Cards

Behavioral methodology to capture and estimates the drawing pattern for credit cards and credit line products.

## Interest Rate Shocks and Stress Scenarios

The Bank has a wide range of static interest rate shocks consisting of parallel and non-parallel shifts in the yield curve including but not limited to the Market Outlook of the LBP Economist, interest rate volatility for the past 10 years and standardized rate shocks prescribed under Basel Committee on Banking Supervision (BCBS) framework on IRRBB.

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The Bank conducts Interest Rate Stress Testing using EaR and EVEaR. Results of scenario analysis help the Bank focus on coming up with contingency measures to reduce impact of IRRBB.

## **CREDIT RISK ON INVESTMENTS**

The Bank adopts a forward-looking Expected Credit Loss (ECL) parameter-based estimation approach as an impairment approach, as prescribed by PFRS 9. ECL Assessment shall be applied to the following treasury exposures:

1. Investments in debt instruments that are measured at amortized cost;
2. Investments in debt instruments that are measured at fair value through other comprehensive income (FVOCI); and
3. Due from Bangko Sentral ng Pilipinas and Due from Other Banks.

To measure the ECL, initial assessment is first done on a per security basis to assess its level of credit risk. The estimated ECL per instrument is based on credit losses that result from possible default events within the next twelve months if there is no significant increase of credit risk (SICR) since initial recognition or with low credit risk. Otherwise, credit losses that result from all possible default events over the expected life of a financial instrument is considered in the ECL calculation.


### **Assessment of ECL for Treasury Exposures**

The Bank segmented its credit exposures for purposes of ECL calculation according to groups that share similar credit risk characteristics with the objective of facilitating an analysis that is designed to identify significant increases in credit risk on a timely basis. The segmentation are by instrument type, product terms and conditions, and industry/market segment. Treasury exposures are segmented into Due from BSP and Securities Purchased under Resell Agreements (SPURA), Due from Other Banks (DFOB), FVOCI Debt Investments, and Financial Assets at Amortized Cost. Assessment is conducted on a per security basis to determine its level of credit risk.

Moreover, the Bank conducts an assessment to determine whether a financial instrument is subject to 12-Month or Lifetime ECL. Financial instruments under treasury is deemed to have a significant increase on credit risk if 1) Rating downgraded from investment grade to speculative/non-investment grade or 2) Rating downgraded by at least two rating grades.

Treasury Exposures are considered in default upon occurrence of the following:

1. If a credit obligation is considered non-performing;
2. If a borrower has been placed in bankruptcy, has been found insolvent, or has ceased operations;
3. If the bank sells a credit obligation at a material credit-related loss; or
4. If a credit obligation of a borrower/obligor is considered to be in default, all credit obligations of the borrower/obligor with the same bank shall also be considered to be in default.

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## A. Staging Assessment


Treasury exposures shall be classified into the following stages:

STAGE	CHARACTERISTICS	ECL ASSESSMENT
Stage 1	Credit exposures with no significant increase in credit risk since initial recognition, with low credit risk, or with external credit rating of investment grade	12-MONTH
Stage 2	Credit exposures with significant increase in credit risk since initial recognition as follows:  1. exposures with external credit rating downgraded from investment grade to speculative/non-investment grade; or  2. exposures with risk ratings downgraded by at least two (2) rating grades	LIFETIME
Stage 3	Credit exposures with objective evidence of impairment or has defaulted	LIFETIME

## B. ECL Parameters and Methodologies

The ECL is determined by the following parameters:

1. Exposure at Default (EAD) is defined as the total credit exposure to a counterparty at the time of default. LANDBANK used outstanding balances of credit exposures as of cut-off date plus accrued interest receivables.
2. Probability of Default (PD) is the likelihood that the counterparty will default over a certain time horizon. It does not depend on the transaction but on the counterparty's characteristics. The Bank follows the following hierarchy to estimate the PD:
  - a. Internal Credit Risk Rating - PD is estimated based on issuer/borrower rating grade produced by internal rating models.
  - b. External Credit Risk Rating - PD is based on issue/issuer rating grade provided by external ratings agencies such as Moody's, S&P, and Fitch. PD Estimation already incorporates any Forward-Looking Overlays.
  - c. External Credit Rating for Benchmark/Comparable Companies - PD is based on issuer rating grade of benchmark or comparable companies. The methodology used in determining the ratings of benchmark companies is either based on Bloomberg peers or industry average.
  - d. Credit Default Swaps Spread Curves

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- Loss Given Default (LGD) is the assigned loss estimate when a counterparty has defaulted, after all recoveries are considered. It depends on the transaction, not on the counterparty. It is computed as one less recovery rate. LGD estimation for treasury exposures follows the same hierarchy used for PD estimation.

Investments in peso-denominated debt securities issued by the Philippine Government or Bangko Sentral ng Pilipinas (BSP) are considered to have low credit risk and carries zero Expected Credit Loss.

### **Credit Risk Exposures**

The Bank is guided by its investment policy in its treasury activities. The Bank uses credit ratings provided by external rating agencies like Moody's, Standard & Poor (S&P), Fitch, or other reputable rating agencies. The following indicates the level of credit quality for each rating agencies and its relevant external rating:

Rating Agency	Rating Grade	External Rating									
<b>Moody's</b>	Investment	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
	Speculative	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca-C
	Default	SD	D								
<b>Standard &amp; Poor</b>	Investment	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
	Speculative	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC
	Default	SD	D								
<b>Fitch</b>	Investment	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
	Speculative	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC
	Default	SD	D								

LANDBANK considers instruments that are rated 'investment grade' to have low credit risk.

The Bank's exposure classified as Stage 1, Stage 2, and Stage 3 amounted to P1,756.20 billion, P0.76 billion, and P0.69 billion, respectively. The table below presents the Bank's exposure for 2023 and 2022:

INVESTMENTS (In Million P)	TOTAL		STAGE 1		STAGE 2		STAGE 3	
	2023	2022	2023	2022	2023	2022	2023	2022
Due from BSP and SPURA	527,994.56	294,208.20	527,994.56	294,208.20	-	-	-	-
Repo-Cash Margin	-	262.48	-	262.48	-	-	-	-
Due from Other Banks	14,122.22	14,243.65	14,121.57	14,243.00	0.65	0.65	-	-
Interbank Loans and Receivables	19,925.86	15,980.46	19,925.86	15,980.46	-	-	-	-

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FVOCI debt investments	437,421.30	450,134.14	436,665.45	448,452.50	755.85	1,681.64	-	-
HTC investments	758,183.28	818,372.87	757,488.74	816,642.17	-	1,036.16	694.54	694.54
<b>TOTAL</b>	<b>1,757,647.22</b>	<b>1,593,201.80</b>	<b>1,756,196.18</b>	<b>1,589,788.81</b>	<b>756.50</b>	<b>2,718.45</b>	<b>694.54</b>	<b>694.54</b>

The calculated ECL for Treasury Exposures as of September 2023 increased from P740.83 million to P801.70 million. The table shows the computed ECL for 2023 and 2022:

INVESTMENTS (In Thousand P)	TOTAL		STAGE 1		STAGE 2		STAGE 3	
	2023	2022	2023	2022	2023	2022	2023	2022
<b>Due from BSP and SPURA</b>	-	-	-	-	-	-	-	-
<b>Due from Other Banks &amp; IBLR</b>	<b>5,775.61</b>	<b>4,847.42</b>	<b>5,772.94</b>	<b>4,845.30</b>	<b>2.67</b>	<b>2.12</b>	-	-
Due from Foreign Banks	4,902.85	3,968.29	4,902.85	3,968.29	-	-	-	-
Due from Local Banks and FIs	830.83	816.59	828.16	814.47	2.67	2.12	-	-
Repo-Cash Margin	-	20.91	-	20.91	-	-	-	-
Inter-bank loan and receivables	41.93	41.63	41.93	41.63	-	-	-	-
<b>FVOCI debt investments</b>	<b>56,137.53</b>	<b>17,964.43</b>	<b>53,570.65</b>	<b>7,987.13</b>	<b>2,566.88</b>	<b>9,977.30</b>	-	-
Local Debt Securities	-	-	-	-	-	-	-	-
Foreign Debt Securities	44,485.94	-	44,485.94	-	-	-	-	-
Private Securities	11,651.59	17,964.43	9,084.71	7,987.13	2,566.88	9,977.30	-	-
<b>HTC investments</b>	<b>739,788.71</b>	<b>718,018.76</b>	<b>45,244.89</b>	<b>17,056.49</b>	-	<b>6,418.45</b>	<b>694,543.82</b>	<b>694,543.82</b>
Local Debt Securities	-	-	-	-	-	-	-	-
Foreign Debt Securities	16,379.54	-	16,379.54	-	-	-	-	-
Private Securities								
Local	721,688.07	712,980.79	27,144.25	12,949.64	-	5,487.33	694,543.82	694,543.82
Foreign	1,721.10	5,037.97	1,721.10	4,106.85	-	931.12	-	-
<b>TOTAL</b>	<b>801,701.85</b>	<b>740,830.61</b>	<b>104,588.48</b>	<b>29,888.92</b>	<b>2,569.55</b>	<b>16,397.87</b>	<b>694,543.82</b>	<b>694,543.82</b>

## OPERATIONAL RISK MANAGEMENT

The Operational Risk Management (ORM) system of the Bank underwent a thorough review and validation to ensure adherence with BSP MORB 146 (Circular 900) Operational Risk Management (ORM), BSP MORB 149 (Circular 951) Business Continuity Management (BCM), BSP MORB 148 (Circular 808) IT Risk Management, BSP MORB 153 (Circular 1085) Sustainable Finance Framework and other operational risk-related regulations.

The ORM frameworks aim to establish and implement risk management strategies and best practices to effectively address and manage operational risk that are embedded in the day-to-day operations of the Bank. These ORM frameworks were found to be substantially compliant to the minimum requirements of the BSP.

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The risk management culture of the Bank is further reinforced with the conduct of risk awareness cascading and sharing sessions on Risk Governance Framework, ORM, BCM, IT and Information Security. Dissemination of operational risk management programs are clearly communicated through continued briefings and seminars using various channels and platforms available in the Bank. Intensive workshops and technical working group discussion reinforces the awareness and learning avenues conducted to all employees of the Bank and LBP Subsidiaries & Foundation (LSFs) for them to effectively perform their duties in managing operational risks.

The ORM function is strengthened with the hiring, training, coaching, mentoring, movement, and promotion of ORM personnel. Major ORM programs for the year involved enhancement of ORM manuals, frameworks, policies, and tools.

The Bank has a BCM Program which is compliant with BSP MORB 149 and aligned with the ISO 22301:2019 (Business Continuity Management System). The BCM Framework emphasizes the Bank's BCM Governance and Process. BCM tools are continuously enhanced to conform to regulations and industry best practices.

As part of the Bank's BCM process, the Bank conducts annual Business Impact Analysis (BIA) and Business Continuity Risk Assessment (BCRA) to prioritize risks and implement corresponding controls and identify and prioritize the Bank's most critical functions and IT systems in case of disruptions. Also, Business Continuity Plan (BCP) components are being reviewed, updated and tested annually to ensure validity and effectiveness of the Plans.

The Bank ensures that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. The Bank supports the continuing education of officers and staff of Risk Management Group (RMG) through the certification programs where employees were licensed as Certified Risk Analysts (CRAs), Certified Risk Manager (CRM) and Bank Risk Management certification exams of Asian Institute of Chartered Banks (AICB).

Embedding of ORM across the institution is manifested with the BUs becoming aware of the specific operational risks they are confronted with. Taking a proactive stance in managing and escalating breaches as soon as they occur strengthens governance and enhances the oversight of these risks. BUs and LSFs conduct risk self-assessment using various RM tools to quantify and qualitatively assess potential operational losses which serve as their dashboard in monitoring operational risk. RMG regularly monitors and escalates to Senior Management and RISKCOM the results of ORM processes.

## Operational Risk Exposure

LANDBANK currently uses the Basic Indicator Approach (BIA) for calculating the capital charge for operational risk under Pillar 1. The formula is based on the average Gross Revenues of the Bank for the last three years to calculate the Operational Risk Weighted Assets (ORWA). As of 31 December 2023, the Bank's Total ORWA using the Basic Indicator Approach was **P157.44 billion** or **10.43%** of the Bank's Aggregate Risk Weighted Assets (RWA) of **P1,509.18 billion**. With the sustained Gross Revenues of the Bank relative to its expanding business operations, ORWA is expected to increase annually.

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LANDBANK is firm in its resolve to fortify its operational risk management system including the development of an internal economic capital measurement model to better capture the Bank's operational vulnerabilities and be able to provide a more reliable support for the overall strategic objectives of the Bank.

The simulation conducted by the Bank for 2023 using its historical loss data resulted in a lower operational capital charge by **P3.89 billion** and **P11.41 billion** using the Standardized Measurement Approach (SMA) and Advanced Measurement Approach (AMA)-based Internal Capital Assessment (ICA), respectively, compared to the computed operational capital charge of **P15.74 billion** using the BIA.


Results of these capital exercises further ratify that the actual operational risk of the Bank is much lower than what it currently charges for its Pillar 1 capital as both models have consistently resulted in lower figures than the BIA. The lower capital charge will allow LANDBANK to lend more to its mandated sector especially small farmers and fishers, micro, small and medium enterprises, countryside financial institutions and local government units.

### **CONSUMER PROTECTION RISK MANAGEMENT SYSTEM (CPRMS)**

In compliance with BSP Circular 1160 – "Regulations on Financial Consumer Protection (FCP) to Implement RA No. 11765, Otherwise Known as the "Financial Products and Services Consumer Protection Act (FCPA)", LANDBANK continues to update the Consumer Protection Risk Management System (CPRMS) as part of its enterprise-wide risk management system. It identifies, measures, monitors, and controls consumer protection risk inherent in the delivery of financial services to the general public. The Bank ensures to readily assist customers' needs and concerns across all channels and guarantee consumer protection practices, address and prevent or mitigate identified or associated risk of financial harm to the Bank and its clientele (depositors, borrowers, and other clients).

As part of oversight function on CPRMS, RMG ensures that board-approved CPRMS policies and procedures are in place, complaints management are strictly implemented, escalation of CPRMS-related issues is within the set timeline and training of Bank personnel are undertaken. Periodic reports are submitted to the Management Committee and the Risk Oversight Committee. RMG also conducts risk assessment of new, modified, or expanded products, programs, services, electronic banking channels, processes and other activities, including outsourcing from third party service providers to deliver quality service and protect LANDBANK'S clients.

The CPRMS Oversight Framework is aligned with and adheres to the Financial Consumer Protection Standards of Conduct prescribed under BSP Circular 11765, to cover (1) Disclosure and Transparency; (2) Protection of Client Information; (3) Fair Treatment; (4) Effective Recourse; and (5) Protection of Consumer Assets against Fraud and Misuse. LANDBANK understands that financial literacy and inclusion begins with responsive and excellent customer service. The Bank is committed to protecting our customers' rights as consumers of financial products and services. To protect clients' information, RMG

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implements a bank-wide risk management program to manage information security risk and data privacy. The CPRMS is also subject to audit and compliance testing.


## **Information Security and Technology Risk Management**

Information is one of the important assets of the Bank, and preserving the confidentiality, integrity, and availability of information assets is one of the essential responsibilities of the Bank to uphold the trust of its clients and stakeholders.

The Bank employs a holistic approach to information security and technology risk management through implementation and continuous enhancement of organizational, technical, and physical controls aligned with strategic objectives, business processes, legal and regulatory requirements, global standards, and industry best practices.


To keep abreast with the evolving threat landscape and efforts towards digital transformation, the Bank continuously improves its security posture through the following:

1. Adoption of global standards and industry best practices on information security and technology management
  - Swift Customer Security Controls Framework (CSCF)
  - Payment Card Industry Data Security Standards (PCI DSS)
  - International Organization for Standardization (ISO)
  - National Institute of Standards and Technology (NIST)
  - Control Objectives for Information Technologies (COBIT)
2. Formulation, development, review, updating, and issuance of documented policies and procedures to guide employees and other stakeholders on the Bank's security controls, practices, and measures, aligned with legal and regulatory requirements, covering various domains
  - Information Security Policy Framework
  - Information Security Program
  - Information Security Strategic Plan
  - Information Systems Strategic Plan
  - Cyber Resilience Plan
  - IT Disaster Recovery Plan
  - Acceptable Use Policy
  - Guidelines on the Management of Information Assets
  - Implementing Guidelines of various IT systems and applications
  - Manual of Operations

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3. Conduct of assessments and reviews by internal and external parties to measure the Bank's security posture
  - Internal Vulnerability Assessment
  - Enterprise Information Technology Security Risk Assessment
  - Cybersecurity Maturity Assessment
  - Information Security Program Review
  - Business Continuity Management Review
  - System/Application Audit Review
  - Compliance Testing
4. Development and periodic measurement of key performance and risk indicators on information security, IT, and cyber security management
5. Facilitation of campaigns to promote risk management culture and intensify awareness on information security, IT security, cyber security, and data privacy for Bank employees, third-party service providers, clients, and the public through various activities, methodologies, and channels, including official social media accounts and conduct of simulation and testing exercises
6. Subscription to threat intelligence feeds, monitoring services, and other reputable sources to keep abreast with the threat landscape, attack vectors, and trends on information security, IT security, and cybersecurity
7. Employment of tools, devices, and solutions to identify, assess, measure, control, mitigate, monitor, and report risks associated with the use and management of information and technology resources
8. Implementation of multi-layered network security systems, deployment of solutions and subscription to third-party services for a highly-redundant and secured IT infrastructure
9. Continuous upgrading of IT infrastructure and electronic/digital banking channels

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