LANDBANK RISK MANAGEMENT PHILOSOPHY AND CULTURE

Risk Management (RM) goes hand-in-hand on co-equal footing with LANDBANK's business strategy. It is an integrative component of good governance which the LANDBANK Board, Risk Oversight Committee (RISKCOM) and Senior Management oversee to ensure adequacy of framework, policies, internal controls, RM systems and procedures to manage risks. **(GCG III.27.d and 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.

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 beyond compliance across the entire organization with active participation of the Board, Senior Management and all business units (BUs) of the Bank. ERM 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. **(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)**

At the Portfolio Level, the Groups or 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 (RGF)

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, concentration/contagion, interest rate, counterparty, liquidity, reputation, Information Technology [IT] risk, among others) of the Bank. RMG reports functionally to the RISKCOM and administratively to the President and Chief Executive Officer (CEO) of LANDBANK.

Subsidiaries RM

Part of the Bank's RGF involves managing risks residing in LBP Subsidiaries. This ensures that there is an integrated perspective of risk exposures both at disaggregated and aggregated level.

"Subsidiaries Risk is the risk on earnings and assets of LANDBANK (direct impact) arising from the reduction or decline in net income of non-financial allied subsidiaries and/or newly acquired entities/institutions."

The Bank provides RM oversight to LBP Subsidiaries acknowledging the fact that the LBP Subsidiaries' operations also bear impact on the Bank's financial statements. It monitors and reports risk exposures of the LBP Subsidiaries through the submission of consolidated financial reports.

RM oversight to the LBP Subsidiaries is also an essential component of corporate governance of LANDBANK. It is a means of improving the Bank's business and services in a group-wide activity that involves LANDBANK as Parent bank and its six wholly-owned Subsidiaries including newly acquired entities/institutions in the pursuit of its business goals and objectives:

1. LBP Resources and Development Corporation (LBRDC)
2. Masaganang Sakahan, Incorporated (MSI)
3. LBP Insurance Brokerage, Incorporated (LIBI)
4. LBP Leasing and Finance Corporation (LLFC)
5. LBP Countryside Development Foundation, Incorporated (LCDFI)
6. Overseas Filipino Bank (OFB)

The RM Program for Subsidiaries (RMPS) of the Bank was approved on 17 December 2018 by RISKCOM per ROC Resolution No. 2018(12)560. This includes relevant methodologies, processes and tools which guides LBP Subsidiaries in implementing a robust RM.

The RMPS incorporates the LBP Subsidiaries' RM Framework which includes:

1. RM Policy (Principles)
2. RM Oversight Structure, key roles and responsibilities
3. Levels of RM (Strategic, Portfolio and Transactional level)
4. Process for Risk Identification, Measurement, Monitoring and Reporting
5. RM Strategy Formulation
6. Programs to promote RM Awareness and culture in LBP Subsidiaries
7. RM Operations and Tools

These policies mirror the RM Framework and policies of LANDBANK as Parent Bank and is compliant with the regulatory requirements articulated under Bangko Sentral ng Pilipinas (BSP) Circular No. 971 dated 22 August 2017 "Guidelines on Risk Governance". It considers the diversity of LBP Subsidiaries' mandate, nature of business operations, structure, risk appetite and other variables.

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.

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:

- Enhanced and articulated the Risk Appetite Statement (RAS) and Materiality Threshold for Pillar 2 risks and Early Warning Indicators/alerts required by the BSP
- Updated the qualitative and quantitative Bank-wide stress testing of Pillar 1 and Pillar 2 Risks
- Enhanced the articulation of bases of assumptions for the quantification of Pillar 1 and Pillar 2 risks
- Presented contingency plans to continue the Bank's services

ICAAP Culture

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 RM 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 the area of RM 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 2018 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 2018 year-end CAR at **13.81%** versus the 10.17% minimum regulatory requirement for CAR.

The actual CAR recorded as of 31 December 2018 was **12.69%** implying an objective risk assessment and capital planning for the year. The actual CAR of 12.69% and CET 1 ratio of 11.86% of the Bank were above the BSP minimum requirements of **10.17%** CAR and CET 1 ratio and were compliant with Basel III requirements.

LANDBANK maintains a strong capital base at all times 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 Bank vigorously continues to preserve its capital to sustain developmental pursuit and quality service to its mandated clients while maintaining acceptable Return on Equity (ROE) of at least equal to the average ROE of the whole commercial banking industry.

LANDBANK's General Policy on Capital Planning was enhanced to establish capital levels that will adequately support the Bank's business plans and ensure continued compliance with the evolving capital and capital ratio requirements of the BSP. Given that internal capital generation through earnings remains as the principal source of the Bank's capital accumulation, the primary thrust of LANDBANK's capital planning activities is to maximize its profitability (and consequently, attain higher retained earnings).

The Bank strictly manages its income-generating assets by managing the Risk Weighted Assets (RWA) 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 DOSRI loans and timely calibration of credit and market risk measurement tools.