Material Risk Factors and Measures Taken to Manage Such Risks

1. Credit Risk

   The Bank manages its credit risk at all relevant levels of the organization through its credit evaluation and assessment process, credit policies, and controls and monitoring structures. The Bank has an established credit limit structure which provides for safeguards to manage credit concentration risk brought about by exposures to single name/group borrowers, industry sectors and DOSRI. Credit risk mitigation is likewise employed through the acceptance of eligible collaterals and guarantees. An internal credit risk rating system (ICRRS) enables monitoring of the portfolio quality and risk level, individual credit profile, remedial accounts, and adequacy of reserves for loan losses.

2. Market Risk

   Trading parameters are established and are regularly monitored to ensure that the risk tolerance established by the Board of Directors is properly implemented. These parameters include exposure and loss limits both on a portfolio and a per trader basis. It also includes the set of rules that restricts the type of financial assets that can be traded by the Bank and control mechanisms to ensure that only capable individuals are allowed to trade and all transactions are dealt above board, transparent and with strict adherence to ethical standards.

3. Liquidity Risk

   The Bank has instituted liquidity risk controls taking into account the Maximum Cumulative Outflow in both its domestic and foreign currency books. The Bank also employs Liquidity Ratio analyses to determine significant changes in its liquidity profile and identify potential points of liquidity stress and serve as gauge for industry comparison. The Bank also uses the Liquidity Coverage Ratio to monitor and assess its ability to withstand significant liquidity shocks that can last 30 calendar days.

4. Interest Rate Risk

   This risk is managed through a structure of limits which define the Bank's tolerance to losses brought about by interest rate movements. This is complemented by regular stress testing which measures the Bank's ability to absorb interest rate shocks.

5. Operational Risk

   Risk and Control Self-Assessment (RCSA) is conducted across the institution to identify risk areas and vulnerabilities. Top level risk assessment is performed by the Board of Directors and Senior Management in its annual Strategic Planning exercise. This is complemented by a bottom-up RCSA conducted by business units, wherein high-risk areas given the functions of the units are identified and risk responses are determined.

The Bank regularly reviews and enhances its Business Continuity Management Program Manual to adopt industry best-practices and ensure that the Bank's core business operations continue to function in the event of business disruption or disaster. Regular tests are scheduled and performed to ensure the ability of all Bank units to recover their business operations. Complementing the detailed contingency measures, the Bank's disaster recovery facilities are regularly assessed and maintained with a view towards the Bank's recovery requirements, including critical application systems, equipment and supplies.

6. Information Security / Information Technology Risk

The Bank, through the Information Asset Profile-IS Risk Assessment, defines an appropriate risk strategy and mitigation plan based on identified significant risks. The assessment recommends a set of strategies/ recommendations to mitigate threats and associated vulnerabilities and place safeguards where necessary.

The Bank developed the IT Risk Management Framework with the primary goal of strengthening the management of IT risks in DBP due to the evolving complexity of risks involved in using information technology in banking service delivery.

7. Compliance & Legal Risk

Through the Compliance Management Group, DBP implements a Compliance Program which includes regular compliance risk testing of business units. Meanwhile, legal risk is centrally managed, through the Legal Services Group, via control structures such as Legal Office sign-off procedures, issuance of legal opinions, continuous training and awareness campaigns.

8. Reputation Risk

Regular media scanning of publications as well as news coverage involving and relevant to the bank is undertaken to immediately identify any negative publicity which could create misimpressions about DBP and its operations. Effective communication is a foundation of an excellent reputation, thus, the bank actively implements an external communications campaign to maintain its image as a proactive development financial institution with a line-up of responsive products and services as part of its developmental mandate.

9. Strategic Risk

Business plans are aligned with the Bank's strategic thrusts and directions as determined by the Board of Directors and Senior Management, with the associated risk assessments taken into consideration in the formulation of risk management strategies and determination of capital requirements. Periodic review of actual performance versus set objectives is done by the Management Committee and the Board of Directors.