

A Government Savings Bank

**Postbank** 

PHILIPPINE POSTAL SAVINGS BANK, INC.

**2016**

**ANNUAL REPORT**



**A Government Savings Bank**

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# Charter Statement

## Mission

To provide financial services in the countryside in synergy with the Philippine Postal Corporation, specifically in the unbanked/ underserved areas where poverty and employment are the highest resulting in the upliftment of the lives of the poor communities thru bigger income and better services

## Vision

By Year 2020, Postbank shall be a strong government bank with focus on countryside development

## Core values

- a. **Commitment** in providing development to the countryside specifically in the unbanked/underserved areas
- b. **Friendly** Service and **Excellence**
- c. **Integrity** and **Transparency**
- d. Promoting Organizational **Cohesiveness** and **Unity** in purpose

# Postbank:

## 100 Years and Beyond

**M**ore than **100 YEARS** have passed since the Postal Savings Bank (PSB) was established in 24 May 1906 as part of the Bureau of Posts with the passage of Act No. 1493. During those days all post offices were considered and in fact operated as branches of the bank. PostalBank was created with a single vision in mind - to tap savings in the countryside and to bring banking services to far-flung areas of the Philippines.

**T** rue to its vision, the bank spurred savings and investments in the countryside. It served as catalyst for economic activity and growth in various uncharted places of the archipelago until the late 1930s. Unfortunately, World War I wiped out much of the progress made by the bank. The setbacks and other ravages caused by the war destroyed about 70% of the records of the PSB and crippled its operations.

**I**t was only in 1946 that PSB resumed services in Manila. Starting with only 15,737 savings deposits accounts with a total value of ₱4,104,223, the bank rapidly grew with deposits jumping to ₱14.4 million in 1947 (250% increase), ₱25 million in 1948 (74% increase), and ₱33 million in 1949 (32% increase).

**I**n the 1960's the private banking sector, rapidly grew while the operations of PSB deteriorated due to the shift of its clients to private banks. As PSB was seen as unduly competing with the private sector, it was dissolved via Presidential Decree No. 121 dated 29 January 1973.

**M**ore than 20 years after its dissolution, the PhilPost Board of Directors approved the re-opening of the Philippine Postal Savings Bank (PPSB) as a wholly-owned subsidiary of the Philippine Postal Corporation with its own separate funds, books of accounts and set of accountable officers and employees. The re-establishment was made pursuant to the Medium-Term Philippine Development Plan of the Philippine Postal Corporation (1993-1998) to 'develop the rural financial sector and ensure adequate supply of credit to the countryside.

**T**oday, PPSB undaunted and even made stronger by its historical setbacks, equipped with greater awareness of the banking needs of the Filipino People assumes the responsibility of being the government's partner in its quest for better economic opportunities for our countrymen through accessible banking and financial services.



# Postbank Brand

**P**ostbank has been characterized as a thrift bank catering small savers and small scale enterprises since it re-opened in 1994. It is often noted about Postbank that it is hardly noticed. It is largely unknown to the public and it hardly figures prominently in the banking environment.

**T**his is rather ironic, for Postbank is the only public thrift bank in the country, and it has existed for over a century (save for the martial law regime). It has a famous address, 1000 Liwasang Bonifacio, right at the bosom of the cultural center of the country. But it is not associated with anything unique, so to speak, and this lack of identity has presumably impinged on its ability to grow in stature, in resources, and in its ability to make a difference.

**W**hile the brand has been always associated with the services of its major stockholder (PHLPost), it has manage to stand by its name slowly to be made known in the field of financial and banking services as the only government savings bank in the Philippines.

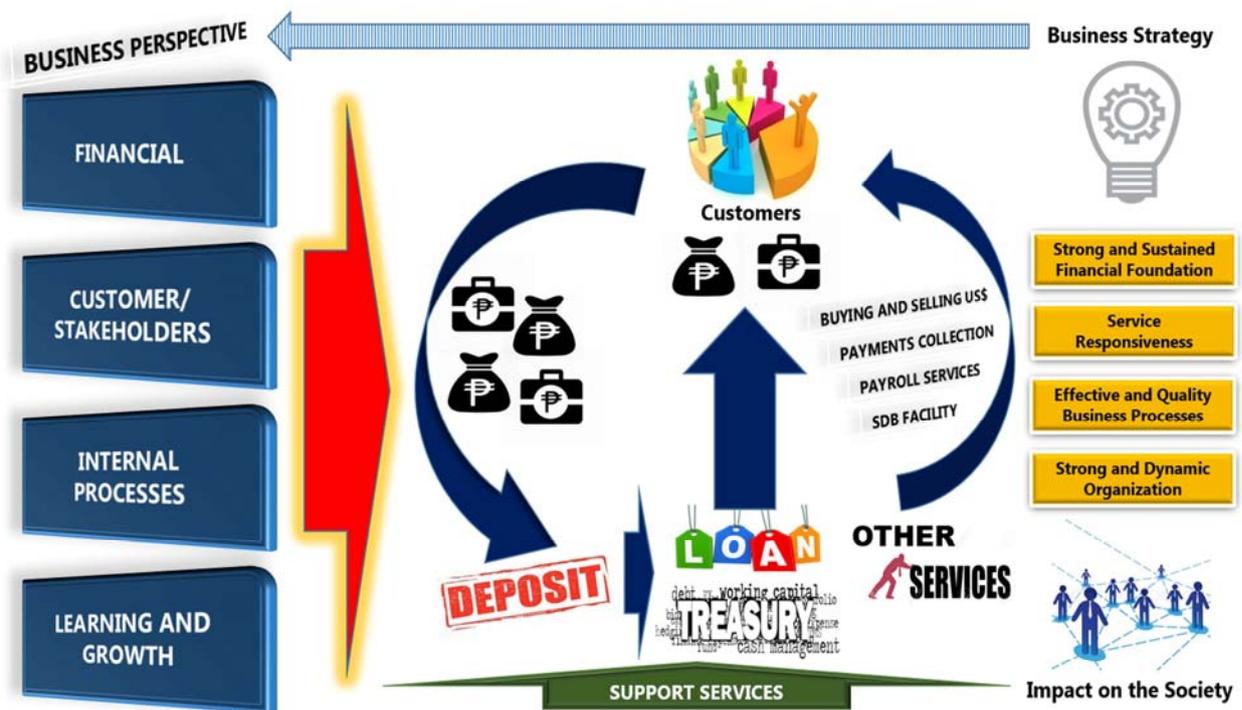
**T**he Postbank logo contains three major elements: (1) A stylized Philippine Flag, to emphasize that, as the country's only public thrift bank, it carries the colors of the country; (2) An abbreviated arrow, to emphasize movement and dynamism, which the strategic plan intends to inject into the Bank; and (3) a slogan, "Kung Nasaan Kayo, Nandoon Kami", to emphasize the outreach objectives as a countryside bank and its synergy tie-up with PHLPost and its chain of more than 1500 post offices.



# Postbank Business Model

The Postbank business model is anchored in the four strategic business perspective: (1) financial perspective; (2) customer/stakeholders perspective; (3) internal process; and (4) learning and growth. As part of the business strategy, the Bank has also identified the four strategic themes which are defined as the high-level business strategies that form the basis of the Bank's business model. These are the areas that the bank must excel in order to achieve its vision. These "pillar of excellence" were identified as: (1) strong and sustained financial foundation; (2) Services responsiveness; (3) Effective and quality business processes; and (4) strong and dynamic organization.

As a simple thrift bank model, the Bank's business emanates from its core operation particularly deposit taking and providing loans. It has an investment arm through its treasury operations that handles also cash management. Aside from the traditional deposit and loan products, the Bank also offers other banking and cash management services. The core banking operations are being sustained by the various internal processes and services of various support groups.



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# Management's

# Report

FINANCIAL HIGHLIGHTS		
	2016 Million ₱	2015 Million ₱
Resources	11,598	12,072
Loans	5,536	6,114
Deposits	9,724	10,765
Capital	982	1,012
Net Income	(11.9)	66.1

The Year 2016 continued to be a challenging year for the Bank. It was brought about at to some extent by some unexpected circumstances that made the stern condition of the Bank.

While Postbank still maintains its position in the industry as a government savings bank in the country, we have been now privy to the plans of the government and the Department of Finance (DOF) of the conversion of Postbank into a Workers' Bank initially as subsidiary of Land Bank of the Philippines.

One of the challenges that has really affected the Bank is the directive from Department of Finance (DOF), per DOF Circular No. 001-2015 (as amended by Circular Nos. 002-2015, 003-2015 and 02-2016) directing all government instrumentalities to transfer their deposits only to the two large government bank in the Philippines which has been detrimental to the operations of the Bank. This order effectively prohibited Postbank from accepting and even maintaining government deposits, despite being a 100% government-owned bank and having the authority of the Monetary Board to accept government deposits.

Aside from the DOF directive, we are now required to fully comply with the implementation of BSP Circular 855 where new standards / stricter rules on loan classification and loan loss provisioning are being adopted. Likewise, due to market forces, non-performing loans substantially increased resulting to non-earning assets, thus reducing our regular revenue / income streams.

Still, with collective efforts of the men and women of Postbank, and under the guidance of the Board, we managed to maintain the Bank's existence for year 2016

On the other hand, while the Year 2016 has not been a good year for the Bank, we have seen some bright side along this way. The acquiring bank (Land Bank) has sent a management team to Postbank to give guidance to Postbank with an ultimate goal of preserving its value. Major focus of the new management team is to: (a) address the Bank's increasing liquidity risk, (b) improving the CAMELS rating; and (c) improve the capital and overall financial condition

Towards the end of 2016, a new direction is set anchored on the bright side towards the goal of achieving the government's plan to convert the Bank into Bank for the Overseas Filipinos.

More great things are coming in the year 2017 and beyond, as the Bank still assures that it shall not relent in our desire to fulfill the needs of our new customers, our stockholders and our personnel.

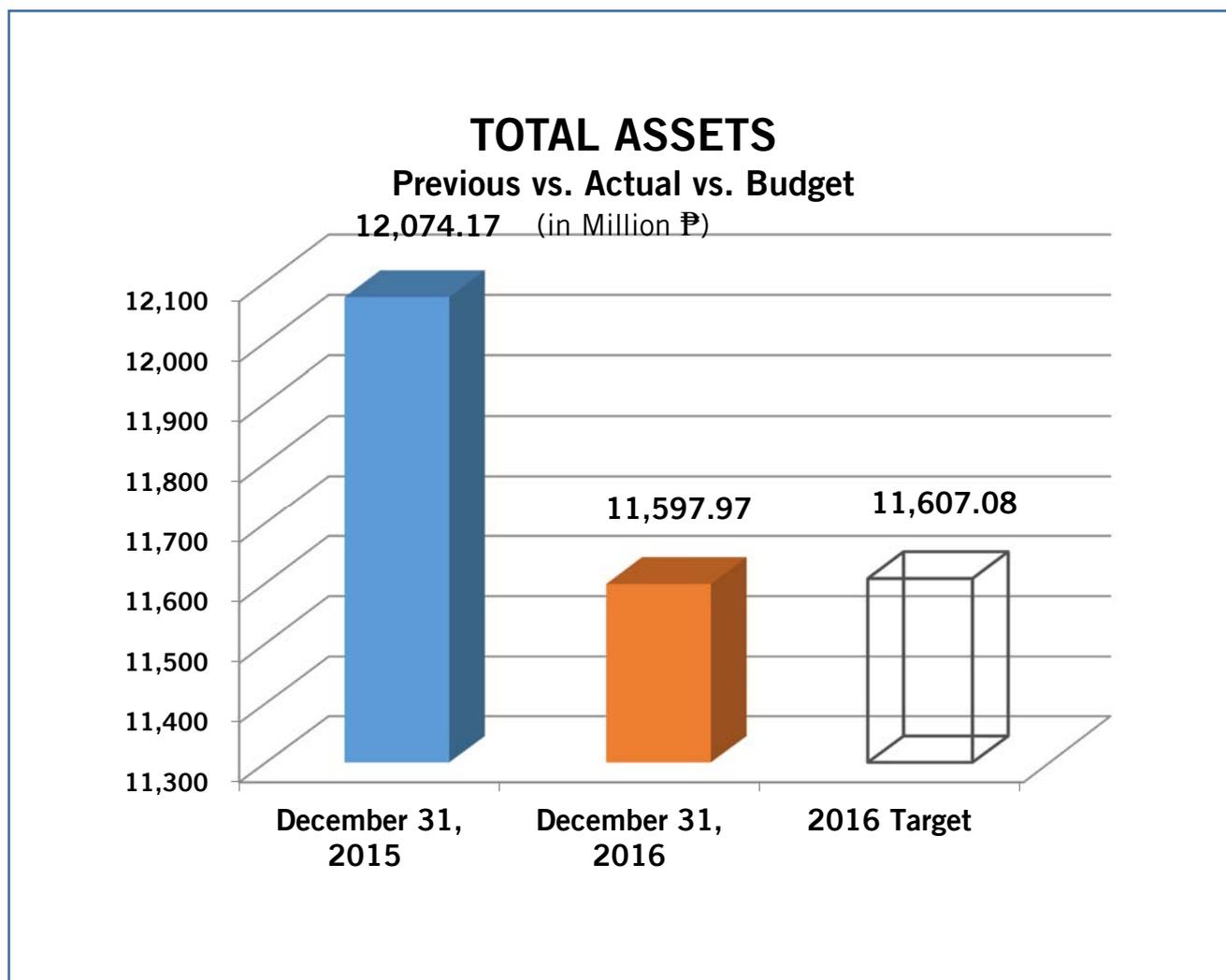
# Results of Operations

## A. TOTAL ASSETS

As of December 31, 2016, Total Assets reached ₱11.6 Billion which corresponds to 99.92% accomplishment based on the 2016 target of ₱11.61 Billion.

Total Assets decreased by 3.94% or by ₱476.2 Million from ₱12.07 Billion in December 2015 to ₱11.6 Billion in December 2016.

ASSETS	2016 Target	As of December 31, 2016	Accomplishment %	As of December 31, 2015	Growth	
					Amount	%
TOTAL ASSETS	11,607.08	11,597.97	99.92%	12,074.17	(476.20)	-3.94%



## B. LOAN PORTFOLIO

Total Loans (Gross) aggregated to ₱5.89 Billion as of December 31, 2016, which is 83% of the 2016 target of ₱7.12 Billion. Loans to Private Corporations represents 44% (₱2.61 B) of the total portfolio, followed by Loans for Consumption Purposes at 15% (₱862 M), Loans to Government 6% (₱380 M) and SME Loans at 16% (₱935 M), with the remaining 18% coming from other types of loan

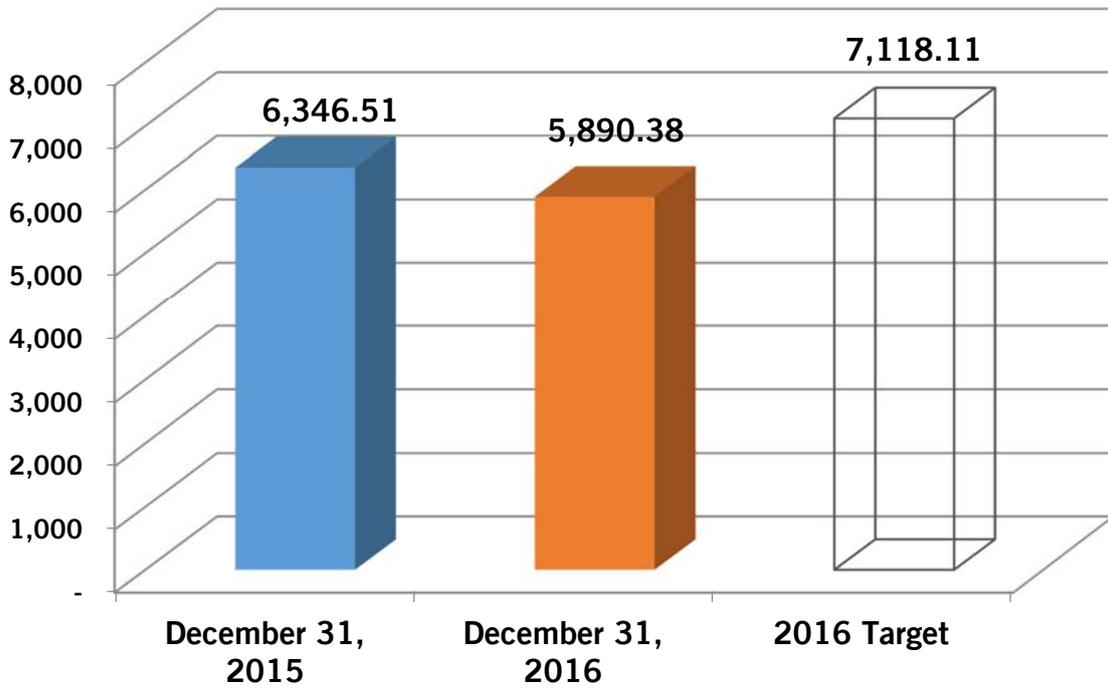
Gross Loans decreased by 7% or by ₱456.14 Million from ₱6.35 Billion in December 2015 to ₱5.89 Billion in December 2016.

In terms of Loan Status, Current Loans comprises 65.27% (₱3.7 B) of the gross portfolio while 34.73% (₱2.01 B) represents Past due Loans.

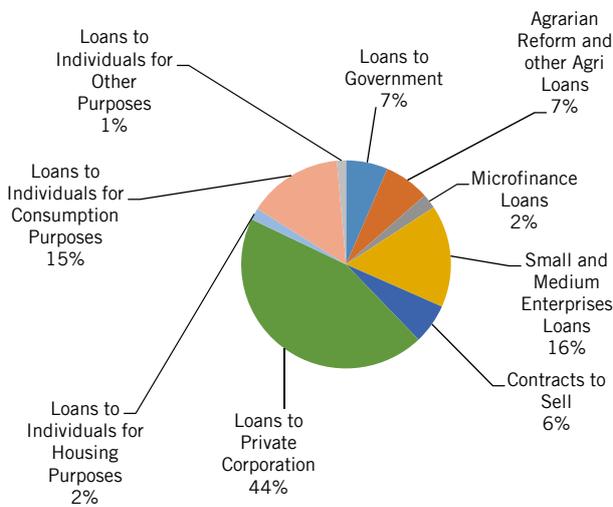
LOANS (BY TYPE)	2016 Target	As of December 31, 2016	Accomplishment %	As of December 31, 2015	Growth	
					Amount	%
Loans to Government Agrarian Reform and other Agri Loans	470.05	380.22	81%	453.45	(73.22)	-16%
Microfinance Loans	321.44	414.00	129%	389.33	24.67	6%
Small and Medium Enterprises Loans	198.85	134.60	68%	1.89	132.71	7013%
Contracts to Sell	1,163.38	934.93	80%	1,003.18	(68.25)	-7%
Loans to Private Corporation	437.46	366.14	84%	437.81	(71.67)	-16%
Loans to Individuals for Housing Purposes	3,070.97	2,608.71	85%	2,959.40	(350.70)	-12%
Loans to Individuals for Consumption Purposes	210.59	107.52	51%	114.55	(7.03)	-6%
Loans to Individuals for Other Purposes	1,128.26	861.83	76%	910.60	(48.77)	-5%
	117.10	82.41	70%	76.30	6.12	8%
<b>TOTAL LOANS (GROSS)</b>	<b>7,118.11</b>	<b>5,890.38</b>	<b>83%</b>	<b>6,346.51</b>	<b>(456.14)</b>	<b>-7%</b>
Allowance for Loan Loss (Gen. & Specific)		(333.05)		(300.44)	(32.61)	11%
Discount - Interest & Bank Charges		(21.59)		(27.34)		
<b>TOTAL LOANS (NET)</b>		<b>5,535.74</b>		<b>6,018.74</b>	<b>(483.00)</b>	<b>-8%</b>

LOANS (BY STATUS)	2016 Budget	As of December 31, 2016	Accomplishment %	As of December 31, 2015	Growth	
					Amount	%
Current Loans	6,674.78	3,775.33	57%	5,898.58	(2,123.25)	-36%
Past due	443.33	2,009.22	453%	527.14	1,482.08	281%
<b>TOTAL LOANS (GROSS)</b>	<b>7,118.11</b>	<b>5,784.54</b>	<b>81%</b>	<b>6,425.72</b>	<b>(641.17)</b>	<b>-10%</b>
Allowance for Loan Loss (Gen. & Specific)		(333.05)		(300.44)	(32.61)	11%
Discount - Interest & Bank Charges		(21.59)		(27.34)		
<b>TOTAL LOANS (NET)</b>		<b>5,429.90</b>		<b>6,097.94</b>	<b>(668.04)</b>	<b>-11%</b>

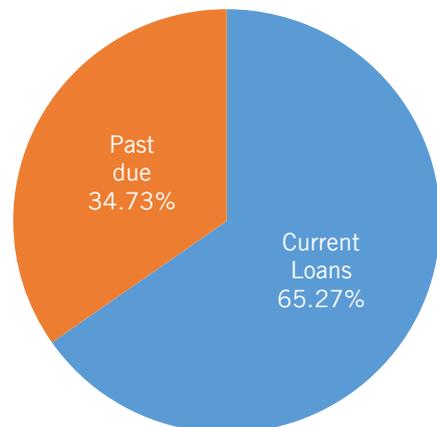
### TOTAL LOANS (Gross) Previous vs. Actual vs. Budget (in Million ₱)



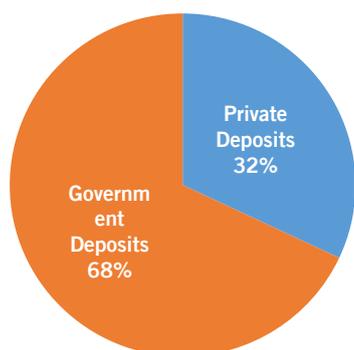
### LOANS (GROSS) BY TYPE



### LOANS (Gross) BY STATUS



### DEPOSITS BY SOURCE



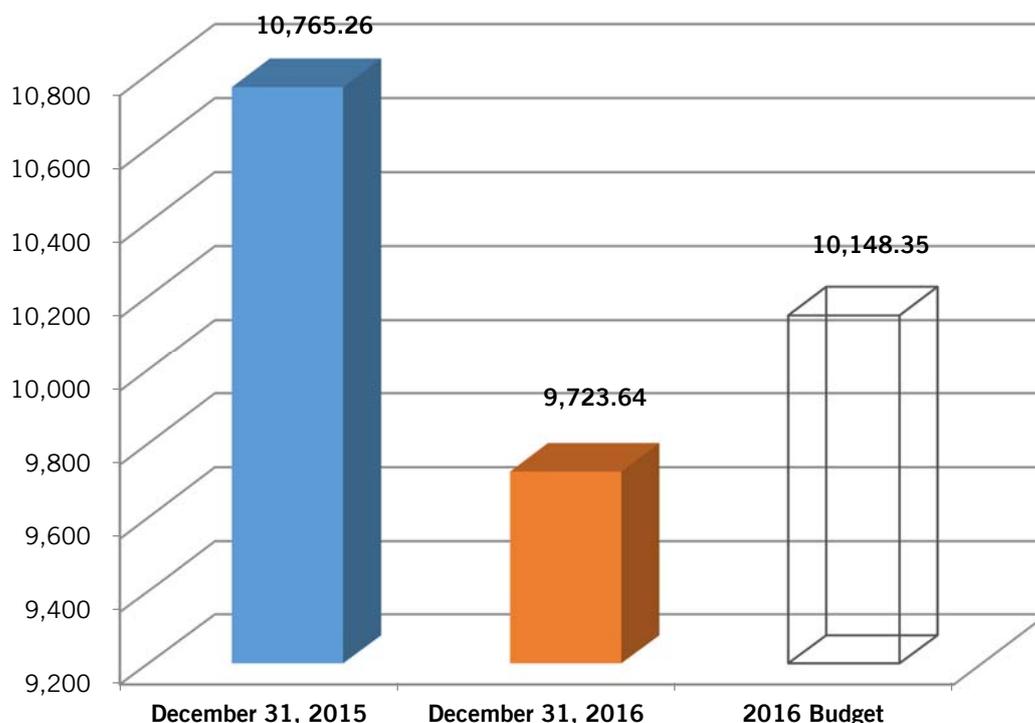
### C. DEPOSIT PORTFOLIO

Postbank registered a total Deposit Portfolio of ₱9.72 Billion which corresponds to 96% accomplishment based on the 2016 target of ₱10.15 Billion. Deposit Mix favors Government deposits which comprises 68% (₱6.61 B) of the total portfolio while 32% (₱3.11 B) came from Private deposits.

Deposits decreased by 10% or by ₱1.04 Billion from ₱10.77 Billion in December 2015 to ₱9.72 Billion in December 2016.

DEPOSITS	2016 Budget	As of December 31, 2016	Accomplishment %	As of December 31, 2015	Growth	
					Amount	%
Private Deposits	5,376.57	3,109.65	58%	5,452.29	(2,342.64)	-43%
Government Deposits	4,771.78	6,613.99	139%	5,312.97	1,301.02	24%
<b>TOTAL DEPOSIT PORTFOLIO</b>	<b>10,148.35</b>	<b>9,723.64</b>	<b>96%</b>	<b>10,765.26</b>	<b>(1,041.62)</b>	<b>-10%</b>

### TOTAL DEPOSITS Previous vs. Actual vs. Budget (in Million ₱)

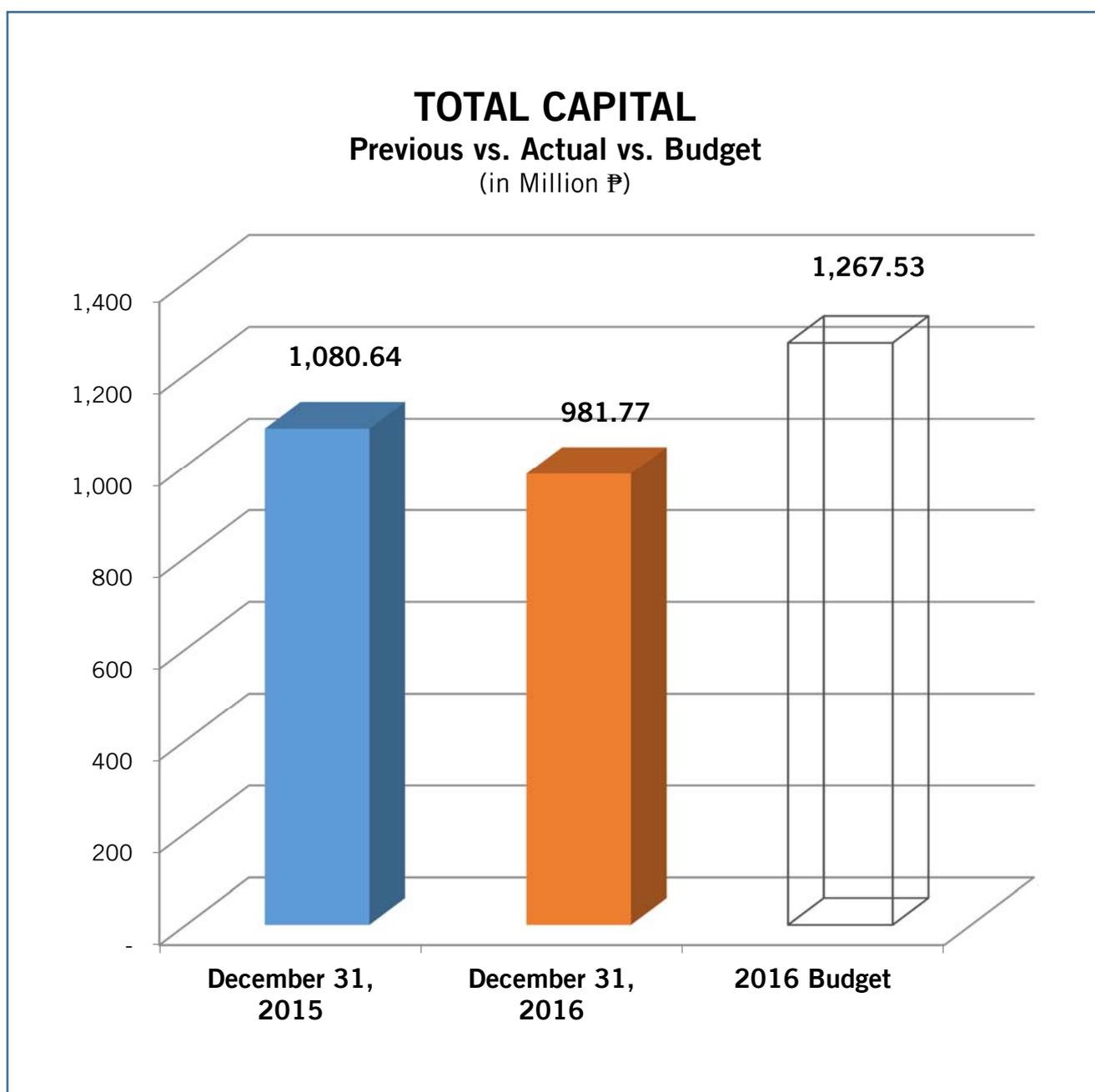


## D. CAPITAL

As of December 31, 2016, Total Capital reached ₱981.77 Million which corresponds to 77% accomplishment based on the 2016 target of ₱1.27 Billion.

There was a decrease in capital by ₱98.87 Million from ₱1.08 Billion in December 2015 to ₱981.77 Million in December 2016.

CAPITAL	2016 Budget	As of December 31, 2016	Accomplishment %	As of December 31, 2015	Growth	
					Amount	%
TOTAL CAPITAL	1,267.53	981.77	77%	1,080.64	(98.87)	-9%

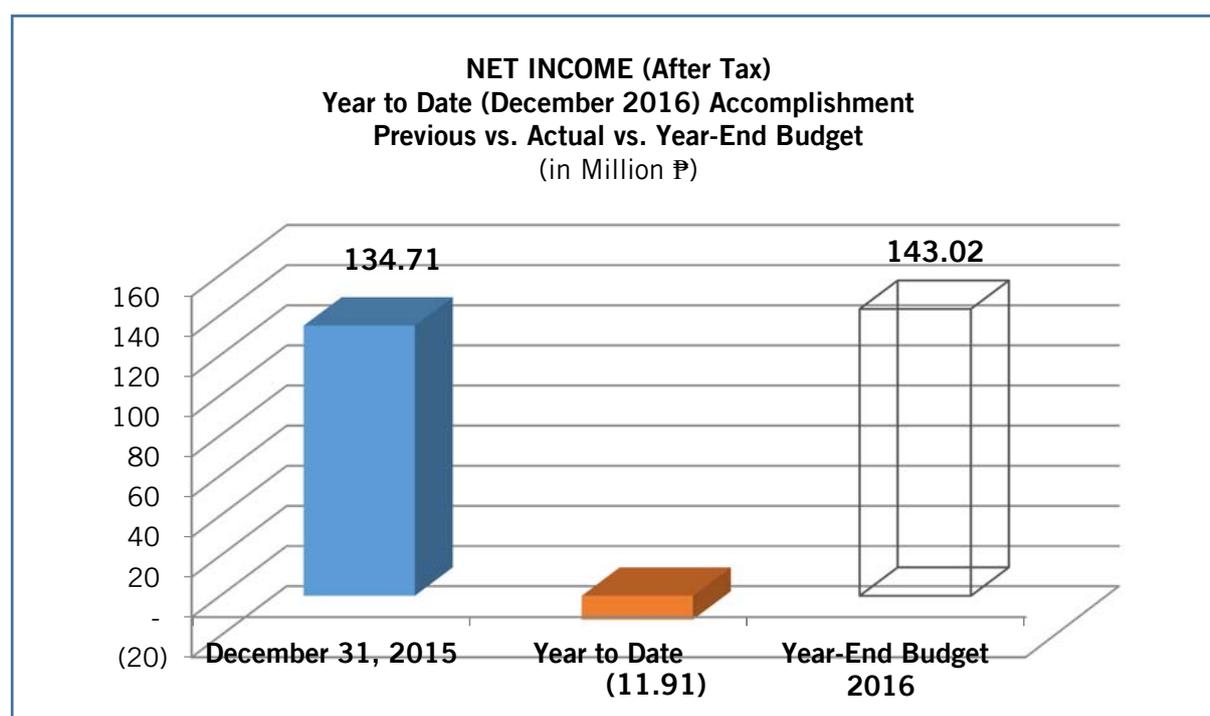


## E. PROFIT AND LOSS

Year to date Revenues as of December 31, 2016 reached ₱683.71 Million which corresponds to 73% accomplishment based on the 2016 revenue target of ₱937.08 Million. Total Expenses totaled to ₱690.69 Million, representing 92% budget utilization based on the 2016 budget of ₱754.65 Million. Hence, year to date net loss (before tax) is ₱6.98 Million which corresponds to a -4% accomplishment vs. the 2016 year-end budget of ₱182.43 Million.

In comparison to the previous period, Total Revenues decreased by 13.49% from the December 2015 figure of ₱790.29 Million. Meanwhile, Total Expenses was also reduced by 10.80% from ₱623.39 Million in December 2015 to ₱690.69 Million in December 2016. Net Profit for 2016 is lower than the previous period's total of ₱134.71 Million or by ₱146.62 Million (109% decline) with resulting net loss figure.

PROFIT AND LOSS	Year-End Budget 2016	Year to Date December 31, 2016	Accomplishment %	As of December 31, 2015	Growth	
					Amount	%
Interest Income	808.69	589.69	73%	668.86	(79.16)	-12%
Non-Interest Income	128.39	94.02	73%	121.44	(27.42)	-23%
<b>TOTAL REVENUES</b>	<b>937.08</b>	<b>683.71</b>	<b>73%</b>	<b>790.29</b>	<b>(106.58)</b>	<b>-13.49%</b>
Interest Expense	110.11	155.86	142%	135.53	20.33	15%
Non-Interest Expense	644.54	534.83	83%	487.86	46.97	9.6%
<b>TOTAL EXPENSES</b>	<b>754.65</b>	<b>690.69</b>	<b>92%</b>	<b>623.39</b>	<b>67.30</b>	<b>10.80%</b>
<b>NET PROFIT OR (LOSS) BEFORE TAX</b>	<b>182.43</b>	<b>(6.98)</b>	<b>-4%</b>	<b>166.91</b>	<b>(173.89)</b>	<b>-104%</b>
Income Tax Expense	39.41	4.93	12%	32.20	(27.27)	-85%
<b>NET PROFIT OR (LOSS)</b>	<b>143.02</b>	<b>(11.91)</b>	<b>-8%</b>	<b>134.71</b>	<b>(146.62)</b>	<b>-109%</b>



# Financial and Non-Financial Indicators

## KEY PERFORMANCE RATIOS AND INDICATORS

The measures and ratios indicated the bank's performance in key areas in terms of capital adequacy, asset quality, management, earnings and profitability and liquidity.

The **capital** adequacy measures the bank's capital and determine the bank's capability to absorb a reasonable amount of losses. Though that Bank's Capital Adequacy Ratio (CAR) is below the required minimum, the Bank is looking forward to an increase in its capital level with the upcoming acquisition of Postbank and its conversion into an Overseas Filipino Bank as pronounced by the Office of the President of the Philippines.

The **asset quality** ratios indicate the credit risk associated with the bank's asset. Ratios on asset quality of the Bank as of December 31, 2016 showed that there are asset quality problems and issues that the Bank needs to manage.

In terms of **management**, the ratios indicates that the Bank was still able to manage at least its administrative cost up to about 77% of the total expenses and up to 90% of the gross revenues.

**Earnings** are the main determinant or indicator of the profitability of the Bank. For this year, the Bank has suffered losses due to circumstances that were beyond the control of the Bank and hurdles in the operations during the calendar year 2016.

KEY PERFORMANCE INDICATORS 31 December 2016	
<b>CAPITAL ADEQUACY</b>	
Capital Adequacy Ratio (CAR)	5.31%
Capital (Tier 1) (P'000)	520,255
Equity to Total Assets	8.46%
<b>ASSET QUALITY</b>	
Past Due Ratio	37.45%
NPL Ratio – Gross	35.40%
NPL Ratio – Net	30.44%
NPL Coverage	15.82%
NPA to Gross Assets	19.88%
NPA Coverage	15.24%
Loan Loss Reserve to Total Loan Portfolio	5.60%
<b>MANAGEMENT</b>	
Administrative to Total Expense	78.55%
Overhead Cost to Gross Revenue	70.88%
<b>EARNINGS/ PROFITABILITY</b>	
Net Income (after tax)	(11,907)
Return on Assets	-0.10%
Return on Equity	-1.13%
Net Interest Margin	3.70%
<b>LIQUIDITY</b>	
Loans to Deposits	61.17%
Liquid Assets to Deposits	54.25%

The Bank is set on a “road to recovery” in the forthcoming years and has been seen to be improving its earnings and profitability via a new management.

**Liquidity** on the other hand, measures the ease with which the Bank can meet its financial obligations with the liquid assets available. While liquidity ratios showed a low percentage for Year 2016, the same is set to increase expecting additional capital funds and deposits from the government.

## NON-FINANCIAL INDICATORS

Aside from the financial ratios, the bank also measured the non-financial indicators to reflect the performance of the bank on other aspects.

The Bank was also measured by the indicators included in the Performance Scorecard as submitted to the Governance Commission for GOCCs (GCG).

The scorecard comprise measures on the different perspectives such as financial, stakeholders, internal processes and learning and growth.

In line with vision and mission on the countryside development, the Bank has been serving the small depositors as shown in percentage of small depositors which comprised 81.5% of the private deposits.

Also, to measure the stakeholders’ perspective the Bank commissioned a private company to conduct the third-party survey which resulted to 94% satisfaction rating.

In terms of the number of beneficiaries of our micro-banking operations, the Bank was able to lend and cater savings to small depositors and borrowers reaching to 1,582 beneficiaries which is more than 50% higher than our target of 1,000 beneficiaries for the year.

The Bank has expanded its POS services by adding 10 additional locations with POS installed.

The Bank as able to get its ISO Certification 9001:2008 of the Bank’s Head Office and all the branches and micro-banking offices which means that the Bank was able to develop a Quality Management System (QMS) and was able to meet our customers' quality requirements while continually improving our operational processes.

NON-FINANCIAL INDICATORS 31 December 2016	
<b>STAKEHOLDERS</b>	
Percentage of Small Private Depositors (below ₱15,000)	81.50%
Satisfaction Rating	94%
<b>INTERNAL PROCESSES</b>	
No. of Existing Products Improved	Expansion of POS: 10 additional locations with POS installed
No. of MBO Beneficiaries	1,582
<b>LEARNING AND GROWTH</b>	
ISO Certification 9001:2008	ISO Certified Head Office and all Branches and Micro-banking offices

# Strategic Plan and Objectives

The Bank shall focus on strengthening its foundation covering the organizational, operational and financial aspects, to maintain and further increase the value of Postbank prior to its conversion, while still pursuing its mandate:

**VISION** : To become a strong government bank with focus on countryside development

**MISSION** : To mobilize savings and provide financial services in the countryside especially in the unbanked and underserved areas where poverty and unemployment are the highest

## A. DEPOSIT GENERATION

While the issuance of DOF Circular No. 01-2017, (amending DOF Circular 001-2015) which practically allows government instrumentalities to deposit with the Bank, the Bank shall still intensify its marketing efforts to generate private deposits. The Bank shall therefore focus on the following:

1. Increase the volume of private deposits particularly from rural banks, schools/universities, cooperatives, private businesses and individuals.
2. Use cross-selling techniques to generate deposits by offering other products and services such as payroll facility, salary loan facility, deposit



pick-up services, SSS payment services, POS merchant services, etc.

3. Fully mobilize the Treasury Marketing Group to augment fund generation necessary for investing and lending activities.
4. Enjoin all borrowers to maintain ADB (Average Daily Balance) deposit with the Bank equivalent to at least five percent (5%) to ten percent (10%) of their outstanding loan.
5. Offer long-term placements to effectively manage the cash flow position such as Time Deposit, Premium Savings Plan (PSP), and Premium Earner Account (PEA).
6. Effectively use pricing strategies in conjunction with waiver of documentary stamp tax (DST) and withholding tax (in the case of PEA), if necessary.
7. Generate low-cost deposits, i.e. CASA deposits, to manage cost and prevent sudden fluctuations in the portfolio.



8. Revisit the government depositors, apprise them of the latest developments with the Bank and convince them to continue their deposit relationship with Postbank.
9. Utilize customary and innovative methods of marketing deposits using print media and the internet.

## **B. CREDIT MANAGEMENT**

While the Bank has strengthened its loan underwriting particularly on loan packaging and evaluation, market forces and external factors beyond the Bank's control contributed to the increase of non-performing loans.

Meanwhile, the Bangko Sentral ng Pilipinas (BSP) cautioned the Bank from further increasing its loan portfolio until such time that the automated loan system is in place and necessary credit improvements are instituted. Therefore, the main focus of the Bank is improving the quality of its loan portfolio thru the following:

1. Intensify collection and remedial efforts on past due accounts by offering flexible payment arrangements, restructuring of account and non-cash settlement (Dacion en Pago).
2. Initiate foreclosure proceedings on past due accounts that can no longer be remedied.

3. Recommend accounts for write-off once all efforts have been exhausted and there is still no clear indication of collection.
4. Focus on quality over quantity by slowing down on loans generation and focusing more on improving the credit underwriting and management processes to maintain a healthy loan portfolio. This is in accordance also with BSP Circular 855 on "Guidelines on Sound Credit Risk Management Process".
5. Concentrate lending to Micro, Small and Medium Sized Enterprises (MSMEs) as well as consumer loans such as Housing Loan and Salary Loan.
6. Veer away from cleans loans, real estate loans and those that exhibit higher risk than the Bank's appetite can allow.
7. Adopt a risk-based approach in lending by prioritizing lending to secured accounts with established track records and those with high credit risk rating.
8. Monitor the loan accounts and conduct periodic visits to clients to immediately detect red flags and institute courses of action to prevent incidence of default.
9. Regularly review the loan portfolio and ensure timely reclassification of loan accounts and provision of necessary allowance for loan losses based on Appendix 18.
10. Improve credit risk oversight of the Risk Management Office to have a comprehensive and objective assessment of the individual and aggregate loan portfolio.

## **C. CAPITAL BUILD-UP**

1. The Postbank Board of Directors has approved the increase in authorized capital stock from P1 billion to P2 billion

2. The request of Postbank to increase its authorized capital from ₱1 Billion to ₱2 Billion, in order to accommodate additional equity infusion from investors, was held in abeyance by the Office of the President of the Philippines
3. Aside from increase in retained earnings from profits, capital infusion from prospective acquirers/ owners will be the source of additional capital
4. A new Capital Build-up Plan will depend on the direction / plans to be set by the new owners / Management

#### **D. MANAGEMENT AND CORPORATE GOVERNANCE**

1. Regularly monitor the status and report to the Management the projects and programs of the Bank such as special financing programs, launch of non-core products and services (remittance, POS project, etc.) and development of IT projects.
2. Implement effective control mechanism to ensure consistency in branch operating procedures, particularly in the system, documentation and reports used for processing of loans and deposits.
3. Provide the necessary support and risk management tools and loss events database to business and operating units in identifying and determining the severity and control adequacy of operational risk and evaluating the same as a check and balance by the Risk Management Office.
4. Internal Audit Office shall conduct regular audit of branches (at least every 18 months) to immediately identify risk areas that the Bank might be exposed to.
5. Update the Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) of the Bank and undertake BCP awareness and training programs.

6. Institute control mechanisms on the manual reporting system of covered and suspicious transactions from source information capture and improve review function thereon to ensure completeness and accuracy of reports submitted to the AMLC.
7. Continuously adhere to ISO 9001:2008 quality standards by implementing and improving management systems and processes.

#### **E. ORGANIZATIONAL DEVELOPMENT**

The Bank's structure will be re-organized to conform to the needs of the institution. The capabilities of Bank officers and employees will be continuously developed to assist in the attainment of the organization's objectives.

##### **1. Credit Structure**

- From the previous directive to centralize lending at the head office, the said function shall be returned to branches.
- The Branch shall undertake marketing, account acquisition, preliminary screening and packaging of loan proposals and credit evaluation.
- Documentation (i.e. execution of loan/line agreement, real estate mortgage, etc.) of duly approved loans, safekeeping of loan folders, booking and account maintenance shall also be undertaken by branch.
- The Area Head shall be the one to present the loan proposal to Lending Committee and Board of Directors.
- Branch Support Department shall be in charge of the loan credit review before the presentation to Lending Committee and Board of Directors.



- Microfinance loans on the other hand shall be processed at the branch level from beginning to end.

## 2. Human Resource Development

The Human Resource Department shall continue implementing the Organizational Development Roadmap that that will focus on the following:

- Skills Development – Trainings and seminars will be conducted to enhance the selling and customer relations skills of employees. Continuous training of personnel involved in the credit process, specifically the Account Officers, Loans Operations Assistant, as well as the support units such as Financial Analysts, Appraisers and Credit Investigators, will be prioritized.
- Management Development – The Bank shall develop potential employees who can be equipped with a broad range of technical, banking, people management skills, perspectives and values.
- Innovation, Technology and People Interface – This aims to facilitate the integration of the people dimension with technology and systems to effectively implement technology-based initiatives.

## F. TECHNOLOGY ADVANCEMENT

The Bank shall fully implement its core-banking systems, interconnecting the Loan Management, Accounting and Deposit Systems, which will promote efficiency and accuracy in critical banking processes.

Parallel monitoring shall be done in 2017 to ensure that the new systems will function as intended and prevent unwanted glitches.

No new major project or system development will be undertaken except for minor support systems such as the HR Information System, Asset Inventory System, etc.



# Highlights of Major Activities

## Bank's Role in Fighting Poverty in Rural Areas

A new year dawns for Postbank, not only because of its recent 110<sup>th</sup> anniversary celebration, but also because a change in managements is in the offing alongside the election of President Rodrigo Duterte.

Postbank President Cesar N. Sarino could only laud the entire Postbank staff for keeping their eye on the ball in fulfilling the bank's mandate to provide banking and savings solutions to untapped areas, as well as help alleviate poverty in places otherwise not reached by bigger banks.

"We want to be able to really penetrate financially unserved areas so that we can promote savings and provide investment opportunities. For many of these areas, they just need a banking institution to serve them, and Postbank has been willing and able to be there for them," Sarino said.

He further espoused the value of savings in alleviating poverty in rural areas.

"One of the things we like to promote is savings to foster growth. We feel that in these small communities, savings can definitely help and is often the first step to developing the area through increased cash flow," he added.

One proud moment for the bank is being able to promote entrepreneurship. Since its inception, Postbank has been supportive of micro, small, and medium enterprises.

"One of the reasons why we exist as a bank is to help our customers achieve their goals.

That includes growth through business opportunities. Especially in recent years, we have been able to help businesses get their start through initiatives such as loans and the Arangkada Pasada program for drivers, conductors, and their families," Sarino expounded.

## MEETING CHALLENGES HEAD ON

A management team who always has the Banks's welfare in mind has been very crucial in Postbank's massive turn around since 2011.

"The new management has had a profound effect on the bank. Just a little over a year since the take-over, we were able to grow our earnings to ₱527 million, and I can say I'm proud to have been part of the," Sarino beamed with pride. Sarino admitted that there have been plenty of doubters in the bank's path to growth.

"There have been plenty of people especially in the recent five years of the bank, who were very negative about our prospects as a bank and have said that we're just a small fry in a big pond. These past five years, we've proven the wrong, and I hope everyone here will continue to help the bank do that," implored Sarino.

Sarino also stressed the need for change. So the bank can keep up with serving the needs of rural or unbanked areas. Part of this call to change is introducing new services and programs to suit the changing needs of the market.

"New services were instituted not only to turn things around for the bank but also to provide more services to our loyal customer.

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At the very heart of the bank is providing the benefits of savings to rural and remote areas, and we will continue on this commitment,” he said.

## **110 Years in Year 2016: Postbank Renews Commitment to Serve**

The Philippine Postal Savings Bank (Postbank) recommits to promoting the value of Savings, especially in rural areas, as it celebrated its 110<sup>th</sup> anniversary last May 24 in rites held at Philippine Postal Corporation Post Office Building in Liwasang Bonifacio, Manila.

In his speech, Postbank President Cesar N. Sarino congratulated the Bank’s staff for consistently working together to propel the bank to higher heights as he urged them to continue espousing the Bank’ mandate to be the “true bank of the people” in so many ways.

“Our mandate remains that we help promote savings to the unbanked and undeserved communities. We firmly believe that savings and promoting investment opportunities can help these areas grow, which in turn helps fight poverty, “stated Sarino.

Postbank was founded in 1906 to help rural and remote communities achieve financial freedom through savings and entrepreneurship. The bank’s services then expanded, through the years, to include loans for small and medium enterprises (SME’s) and, eventually, corporate banking. “We have to keep evolving as our customers’ needs change. That’s how we keep ourselves relevant,” Sarino reminded the anniversary attendees composed of bank officers from branches all over the country, employees in the main headquarters, and valued clients.

## **CHALLENGES**

The bank has faced many challenges throughout its 110 years, including two closures. There was also a dramatic drop in customers in the years after its reopening in 1994. However, it was turned around by the new set of leadership appointed in 2011 which focused on stabilizing bank operations.

In 2013, the bank also launched new programs such as the micro banking offices (MBOs) and Postbank Remit, which have helped drive the unprecedented growth of the bank since the new management took over.

“New services were instituted not only to turn things around for the bank but also to provide more services to our loyal customers. At the very heart of the bank is providing the benefits of savings and access to credits to rural and remote areas, and we will continue this commitment,” Sarino said.

## **ISO CERTIFICATION**

One of Postbank’s greatest milestones in recent years is its ISO certification last year. Adhering to Executive Order 605 of the year 2007, the bank submitted itself to the rigid certification process, which was completed in November 2015.

“Receiving the ISO certification means we are able to cater to our clients efficiently and effectively. That’s what we vow to continue in the coming years.” Sarino said.

## **SERVICE AWARDEES AS OF MAY 2016**

Postbank Executive Vice President Higinio C. Fabian gave recognition awards to loyal employees as well as top branch achievers during the anniversary party.

### **20 Year Awardees**

1. MA. FE M. Orna – Office of the President CEO
2. LEANNART M. AUSTRIA – Fund Management Department

3. MA. PATRICIA C. FLORES – Dagupan Branch
4. MARY JANE G. GENERAL – Iloilo Branch
5. SHIRLEY L. DELGADO – Manolo Fortich Branch
6. DIOSDADO G. VILLALUNA JR. – Iloilo Branch

#### **15 Year Awardees**

1. GILLY D. G. CAMILET – REMEDIAL AND ASSETS Management Dept.
2. ELDEFONSO C. CORPUSH – Iloilo Branch

#### **10 Years Awardees**

1. LOUIE A. ROJAS – RISK MANAGERMENTS OFFICE
2. EVA LUZ T. BERENQUER – Board Secretariat
3. BELEN B. AVINADO – CORPORATE BANKING DEPARTMENT I
4. DORIS D. NAVIDA - ACCOUNTING AND FINANCIAL CONTROL DEPARTMENT
5. RODEL O. ALMANZA – ASINGAN BRANCH
6. REGINALD S. RABUCO – ILOILO BRANCH

#### **TOP PERFORMERS**

The Branch Awards were also handed out to top performing units of the bank. Handed the awards for their stellar performance were Postbank President Cesar N. Sarino, Mariano Aureus (Board Member), and Atty. Mario Lorenzo (Corporate Secretary). The Branch Star Award for Year 2015 was the Cagayan de Oro Branch headed by VP ALFREDO TAYO III

#### **A COMMITMENT**

The bank vows to continue to serve rural areas and provide more services to the unbanked areas of the country.

“We have to remain solid in finding solutions to rural and remote areas in terms of providing financial assistance. That is our purpose as an institution. We commit to coming up with even more ways of serving the unbanked areas,” Sarino said.

Founded on May, 24 1906 as a part of the Bureau of Posts, Postbank is a government thrift bank created with a special mission to encourage savings and provide access to financial credit to the “unbanked” areas of the country normally remote and rural areas. After its operations were interrupted during the Japanese occupation, the bank reopened in 1946 with an initial savings deposit of ₱4.1 million which grew to ₱33 million by 1949. However, the bank was again closed by former President Ferdinand Marcos in 1973 until the transformation of the Bureau of Posts into the Philippine Postal Corporation (PHLPost) in 1992. It was formally reopened in 1994 by former President Fidel Ramos. In 2011, the bank started to operate under new management. The year after, the bank’s gross earnings increased to ₱527 million, and has been steadily increasing since. In 2015, the bank received ISO 9001:2008 certification for its quality management systems

## **New Camarines Sur MBO Opened**

For Postbank’s every move and decision, the bottom line is always to fulfil the Bank’s vision to reach the country’s remote and unbanked areas.

Postbank’s latest Micro Banking Office (MBO) recently opened in San Jose, Camarines Sur last April 1, 2016. Located in the town’s municipal building, the new MBO aims to address the banking needs of the municipality, as well as surrounding towns and cities.

The new MBO is actually a transfer from its previous location in Bula, Camarines Sur. The transfer was made due to the new area’s greater potential in serving the community and tapping the market.

“We find that San Jose is a more viable area for the MBO because of its location along the national highway. It’s also very close to the Partido area of the province, where we

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can see a huge potential market,” says Alan Orogo, Microfinance Department head.

The new location is also more convenient for potential customers in the area in terms of commuting.

“In Bula, there were many challenges in terms of public transport. The San Jose unit is easier to access via commuting because of its location,” adds Orogo.

The new MBO will be attached to the Tigaon branch. Currently, the MBO is staffed by a supervisor, a loan assistant, and a teller. Postbank has established MBOS across the country to help provide banking and savings solutions for previously untapped or unbanked areas. The bank believes that promoting savings in remote areas will help in alleviating poverty.

“At the very heart of the bank is providing the benefits of savings to rural and remote areas, and we will continue on this commitments,” he adds. “We firmly believe that savings and banking can help these areas grow, which in turn helps individuals fight poverty.”

At present, Postbank has 6 MBOs and 4 MFUs

## Credit Facilities Offered

### A. Arangkada Pasada Level Up

More are members of the transport sector will benefit from Arangkada Pasada, as Postbank further commits to helping our drivers, conductors and their families with an expanded version of the said program.

Arangkada Pasada loan programs is now offered not only to individual members of the transport sector, but also transport institutions and groups, including cooperatives and institutions that lend to drivers, conductor, and their families.

Created in 2012, the ₱250 Million Arangkada Pasada loan program was

conceptualized to cushion the cost of rising petroleum prices in the market. The government, through Postbank, wanted to provide members of transport groups an alternative means of earning by giving them a chance to put up their own businesses starting from capital that will be loaned by Postbank.

“We’re very happy to announce the expansion of Arangkada Pasada as it becomes more inclusive, In keeping the government’s commitment to help the transport sector, which is besieged by a complex set of factors, including rising cost of living,” states Postbank President Cesar N. Sarino.

Under the revitalized Arangkada Program, a loan be offered to legitimate members of the transport sector with viable business proposals or are already operating profitable business endeavors at the time loan application. Loans should be backed acceptable collaterals under the bank lending guidelines and can be applied at any of Postbank’s branches and banking units.

“Arangkada Pasada is in line with the bank’s vision to promote entrepreneurship, which will then give drivers and transport group members a way to widen their economic opportunities,” Sarino adds.

The expansion now allows cooperatives transport groups, microfinance institutions, other groups involved in the transport sector, or institutions that provide financial help to transport group members to borrow from the program to be distributed to its individual members or lenders or to put up a business ventures which exclusively benefits the members of the transport sector. A transport cooperative, association or group may avail of loans needed by the project, based on a feasibility study.

“We are expanding the program to these groups to better distribute the financial assistance that the program gives to members of transport sector. In this way, transport sector members who feel hesitant

approaching the bank can benefit from the program through organizations that they are already part of or that they borrow from,” explains Sarino.

Transport groups and cooperatives may also borrow from the fund for any business projects already running or any business proposals that can help benefit its members.

The Arangkada Pasada program is true to the bank’s thrust on reaching out to areas and sectors unnoticed by larger banking institutions.

“We are determined to become the true development bank of the government by going to places where there are no banks and serve people who are otherwise not noticed by bigger bank,” assures Sarino, “I am confident that the program will help uplift the condition of our transport sector and their dependents.”

### **B. Postbank Puts Up Salary Loan Facility for Bicol University Employees**



Postbank President Cesar N. Sarino with Bicol University President Dr. Arnulfo M. Mascarinas

The Philippine Postal Savings Bank has recently signed a memorandum of agreement with Bicol University to provide the university with a new salary loan facility for its employees. The new agreement allows the university to further provide

salary loans in a more efficient manner to its employees.

Signed on July 1, at BU’s Legazpi City campus, the MOA provides the university with a ₱40 million loan facility for salary loans for its employees. Present at the MOA signing are Higinio C. Fabian Executive Vice President of Postbank’s Branch Banking Group; Cesar N. Sarino Postbank President; Dr. Arnulfo M. Mascarinas, Bicol University President and Jerry Bigornia, Vice President for Production of Bicol University. Also witnessing the signing are Hector Pili, Branch Head for Legazpi Branch and Ronnie Balde, Account Specialist of the same branch.

“We’re happy to provide this salary loan facility for BU employees. We think that this can help alleviate the monetary needs of the employees as well as provide capital for nay businesses or projects they have in mind. It’s true to the Bank’s vision of helping improve lives in the countryside,” Says Sarino.

Bicol University is the premier state university in Region V. it is home to board exam toppers in the fields of accountancy, engineering, midwifery, nursing, and social work. It has been ISO 9001:2008 certified since 2014.

## **Postbank Now Fully ISO CERTIFIED**

The Philippine Postal Savings Bank proudly announce the bank is now fully ISO certified for all its 25 branches, 6 micro banking offices (MBO), and the head office in Manila.

Recently awarded by the German group TUV Rheinland Philippines with an ISO 9001:2008 Certification, Postbank ensures that the bank is up to the standard set by the Governance Commission for Government Owned or Controlled Corporations (GCG) and stated in Executive Order 605 of the year 2007. Which states

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that all Government Owned and Controlled Corporations must adopt a quality management system and pursue ISO certification.

“We’re happy to receive this certifications. Thanks to the bank’s leadership, we were able to get certification for all branches smoothly and easily,” says Ma. Salome V. Panzo, Vice President and Compliance Officer, and designated Quality Management Representative of Postbank.

Postbank President Cesar N. Sarino is also pleased with the new certification. “Receiving the ISO certification means we are able to cater to our clients efficiently and effectively. We’re very happy and honored to receive this certification,” says Sarino.

The certification is a result of concerted effort and willingness to cooperate among Postbank’s officers and staff – even if it means working long hours and on weekends.

“We owe this to the commitment of each employee who themselves want this,” adds Panzo.

Postbank started the process of obtaining the certification in November 2014, which included preliminary preparations for the organization.

The bank documented all processes to see if they’re up to the standard of the quality management system, as well as made all documents available for viewing to the public through its server for the certification process.

Ten of the bank’s branches, including the head office, passed the initial inspection and audit in May 2015 by German group TUV Rheinland Philippines. The group also conducted a more thorough inspection of Postbank’s Quality Management System in July 2015. The remaining 22 branches and MBOs underwent and passed TUV Rheinland’s surveillance and audit from June 27 to July 1, 2016.

The bank has remarkably submitted all requirements and underwent all processes for the certification ahead of the deadline given committed to GCG in December. TUV Rheinland has specifically cited the bank’s effective filling system, as well as the warmth of its staff.

“To maintain the certification, the bank will conduct its own twice-a-year audit. New hires are also trained to imbibe ISO culture from their orientation. The bank has also committed to improve its processes not only for compliance but ensure effectiveness and efficiency,” says Panzo

Always wanting to improve, the bank has also set its sights in obtaining the new ISO 9001:2015 certification. The new certification upholds the same standards in service and transparency as the 9001:2008 but with an added element of risk management and senior management accountabilities.

## **Trainings and Seminars** **for Employees Mounted**

Always wanting to improve to serve their market better, the Philippine Postal savings Bank has been holding seminars and trainings for its employees since the beginning of the year. The bank aims to raise its standard for this year, especially with its recent receipt of an ISO 9001-2008 certification for all branches and micro banking offices (MBO).

For January, Postbank’s MBO in Binmaley, Pangasinan held a training and exposure for new MFU loan assistants from January 6-11 of this year. Naga Branch held a training last January 13-14.

Meanwhile, last January 22, the bank’s head office held a seminar and orientation on AMLA Policy, Security, and ISO standards for new hires. On January 23, the head office hosted employees from the Dagupan branch, Mabalacat, Tarlac, Tuguegarao, Malolos, and San Pablo

branches for the Signature Verification and Forgery Detection seminar. The also hosted a similar seminar on January 30 for the Baguio, San Fernando (La Union), Asingan, Malolos, and San Pablo branches.

Meanwhile, for February, the bank's Asingan, Pangasinan branch held a training on the MFU Loans Management system last February 5. The bank's main office also joined the Bangko Sentral ng Pilipinas (BSP). Know your money and Counterfeit Detection Seminar last February 9. Postbank also joined the Philippine Export-Import Credit Agency's (PHILEXIM) Business Forum on Guarantees as an Economic Enabler last February 16. The Malolos branch also held a security awareness seminar last February 16-17.

Meanwhile, the Cebu Branch joined the Cebu Banker's Club's Signature Verification and Forgery Detections seminar on February 20. The Mabalacat branch held a similar security awareness seminar last February 23-24.

For March, the Lipa branch held a security awareness seminar form March 1-2. Meanwhile, the bank's head office held another seminar and orientation on AMLA policy, Security, and ISO standards for new hires last March 7. The san Pablo branch held their own security awareness seminar last March 10-11 while the Mindanao branches held a seminar on Signature Verification and Forgery Detection last March 12, hosted by the Cagayan de Oro branch. The bank also joined the Money Market Association of the Philippines' (MART) Market Reading Seminar last March 16. While the head office held the orientation on AMLA Policy, Security, and ISO standards for new hires on the same date. On March 21, the bank's head office also held an orientation on the bank's policies and procedures.

The South Luzon area employee were invited by the bank's Naga City branch for the Signature Verification and Forgery Detection seminar, as well as an orientation on the bank's policies last April 2. The Tarlac branch, meanwhile, held a security

awareness seminar with a survey and audit last April 4-5.

A bank wide Credit investigation and appraisal services workshop was also held from April 7-8 while the bank joined the University of the Philippines' (UP) Oracle seminar last April 10. A security awareness seminar with a survey and audit was also held by the Asingan branch last April 11-13. 44 head office employees hired since 2014 also received a training on information security user awareness last April 21 while the bank joined BANCNET's Updates on Fraud Progression and AML Compliance seminar on the same date. The Naga, Tigaon, Legaspi, and Sorsogon braches as well as the Bacacay, Bula, Malinao, and Bombon MBOs also held their respective security awareness seminars from April 24-30. The Cagayan de Oro branch also hosted the ISO Awareness Seminar for Mindanao last April 30.

The Dagupan branch and the Binmaley MBO held their own security awareness seminar last May 2-4 while the Sought Luzon Are employees convened at the Legaspi branch for an ISO Awareness seminar last May 7 and the North Luzon Area employees did their own ISO Awareness seminar last May 14. The San Fernando branch held a security awareness seminar last May 16. The Office of the President and the Main branch underwent the AML Compliance Testing and Training on May 18 and 21, respectively, while the Visayas employees convened at the Cebu branch for their ISO awareness seminar last May 21 and a bankwide accountant's and loans specialist's training on Connectcore was held last May 19-20. The Baguio branch also held their security awareness seminar last May 30-31.

All South Luzon MBOs, as well as the Sorsogon, Naga, Tigaon, and Legaspi branches each held a AML training in their respective braches from June 2-11. A bankwide Account Specialist and Loan Assistant Seminar on Central Liability Systems was also held last June 6-7. While the Tuguegarao branch held their own security awareness seminar from June 6-8.

The Malolos branch held a AML training from June 17-18 while the bank joined UP's second IT Security Analysis workshop held from June 26 to July 24

## Postbank Holds 2016 Badminton and Basketball Tournaments

Postbank successfully held as its 2016 Badminton Tournament on August 20, 2016 at Sureshot Sportsville, Jose Abad Santos Avenue, Gagalangin Manila.



Postbank Players, Women's Doubles

The event was participated by almost 50 employees of the Bank who showcased their skills and expertise in the game.

The contingents were divided into different categories (men's doubles and women's



Postbank Players, Men's Doubles

doubles and levels (Levels A to C). The event was an individual pair competition for women's and men's category.

There are four (4) pairs each for women's doubles and men's double competing for Levels A and B and five (5) pairs each competing for Level C.

The following are the set of winners in the said tournament:

### LEVEL A

Men's Doubles	Women's Doubles
Marc and Ardel	Luz and Dane
Bong and Abel	Malou and May

### LEVEL B

Men's Doubles	Women's Doubles
Randy and Oden	Jhess and Jobee
Mike and Steward	Geraldine and Hannah

### LEVEL C

Men's Doubles	Women's Doubles
Johayr and Ariel	Rejane and Judith
Archie and Rino	Rachelle and Guia

On the other hand a friendly basketball tournament dubbed as 2016 Postbank Intercolor Basketball Tournament was held which started on July 30, 2016. There are four teams competing in the tournament composed of Blue, White, Red and Black Teams. The games were played at the YMCA Manila and Knights of Columbus Intramuros. Black Team emerged as the Champion of the 2016 Postbank Intercolor Basketball Tournament



# Risk Management Framework

Postbank considers sound and adequate risk management as critical component of a stable and profitable financial institution.

As risk is an inherent part of its business undertakings- present in the financial instruments it acquires and trades, in loans it grants, in deposits it generates to fund its requirements, and even in people it hires - it is imperative that risk related issues are taken into consideration in all its business decisions and communicated across the Bank starting from the Board of Directors to Senior Management down to actual risk – taking units through a well-defined risk system and structure.

A sound corporate risk management philosophy translates into prudent risk-taking and proactive portfolio management enabling Postbank to pursue its financial expansion while maintaining adequate capital at all times.

## Risk Management System and Structure

The risk management framework at Postbank is a top-down process where all risk policies and procedures are approved by the Board of Directors (BOD). The Board sets the overall risk tolerance of the Bank that is consistent with its business plan, financial strength and organizational capability.

BOD has created the Corporate Governance and Risk Management Committee (CGRMC), composed 5 members of the Board, to oversee the implementation of risk management process that includes development of various risk strategies and

principles, implementation of risk measurement tools, monitoring risk indicators and approval of risk limits.

The **Risk Management Office (RMO)** is the direct support of the CGRMC in the day-to-day identification, measurement, monitoring and control of risks. As an independent unit reporting directly to the Board, RMO consults with business units in identifying, measuring, and implementing risk management methodologies and controls. It assists business and operating units in measuring risk/return to better manage their risk profile.

**Senior Management** of Postbank is also actively involved in the in planning, reviewing and assessing different risks being managed by the Bank through the various committees. The Management Committee (MANCOM) ensures that all business objectives are align with the risk tolerance set by the Board. The Assets and Liabilities Management Committee (ALCO) is responsible for ensuring market and liquidity risks are adequately addressed on long-term and daily basis. The Lending Committee (LENDCOM) which has been delegated with credit authority limits, reviews, approves / recommends loan proposals and credit policies to the Board.

**Internal Audit Group** provides another layer for independent check and balance to further strengthen risk controls and compliance.

Internal Audit ensures that risk-takers comply with standards and established policies.

It also evaluates the effectiveness and adequacy of the Bank's risk management

framework particularly on its control processes.

**Legal Group** has the primary responsibility of reviewing all Bank's documents for completeness and enforceability under respecting legal jurisdiction.

**Compliance Office** oversees that the Bank is effectively managing compliance of regulatory risk as prescribed by the Compliance Manual. The same unit is also responsible for the implementation of the Anti-Money Laundering Program.

#### CAPITAL ADEQUACY RATIO (IN MILLION ₱)

	2016	2015
Tier 1 Capital	537	1,032
Tier 2 Capital	38	91
Total Regulatory Capital	575	1,123
Reciprocal Investment in equity of other bank	-	-
Total Qualifying Capital after deductions	575	1,123
Total Credit Risk-Weighted Assets	9,654	9,456
Total Market Risk-Weighted Assets	-	-
Total Operational Risk-Weighted Assets	829	718
Total Risk-Weighted Assets	10,483	10,174
<b>CAPITAL RATIOS</b>		
Total Regulatory capital expressed as percentage of total risk weighted assets	5.48%	11.04%
Total Tier 1 expressed as percentage of total risk weighted assets	5.12%	10.14%

#### TIER 1 & 2 CAPITAL COMPONENTS (IN MILLION ₱)

QUALIFYING CAPITAL	2016	2015
<b>A. Tier 1 Capital</b>		
Paid up common stock	820	800,243
Retained Earnings	210	143,279
Undivided Profits	10	134,706
Less: Unbooked valuation reserves	(503)	(46,000)
Less: Deferred tax assets	-	-
<b>Total Tier 1 Capital</b>	<b>537</b>	<b>1,032.23</b>
<b>B. Tier 2 Capital</b>		
General loan loss provision	38	91.391
<b>Total Tier 2 Capital</b>	<b>38</b>	<b>91.391</b>
<b>C. Total Qualifying Capital (C = A+B)</b>	<b>575</b>	<b>1,123.62</b>

## Credit Risk

Credit risk pertains to risk of financial loss due to non-payment by borrowers, issuer or counterparties of their obligations, deterioration in credit quality and reduced recovery from a credit facility in the event of default. The Bank is exposed to credit risk as lender, holder of securities and as counterparty in trading activity.

The bank follows the Single Borrower's Limit (SBL) prescribed by the BSP. Credit exposures are constantly monitored and a credit evaluation process is conducted to assess the credit-worthiness of each borrower.

The result of the credit evaluation is used as basis in adjusting credit lines periodically. To efficiently manage credit exposures, collateral and other applicable agreements are executed with counterparties whenever possible.

The bank monitors and reviews from time to time the credit practices and reporting, and if appropriate, approve credit policy changes and procedures to ensure that credit policies are appropriate and are being complied with.

### Management of Credit Risk

Management of credit risk at Postbank begins with the loan approval process. The Bank has established a rigid screening and prudent credit evaluation process of loan applications as contained in the credit risk manual. It defines loan activities from identification, credit initiation, documentation, loan administration, etc. The credit process is also guided by Board-approved credit policies and procedures including hierarchy on approving authority, internal risk-rating methodologies and collateral requirements.

An essential part of credit risk management is periodic review of quality of loan portfolio, monitoring of line utilization, analysis of concentration of loans by industry, assessment of adequacy of loan loss provisioning, etc. All these measures

are implemented in order to maintain a diversified and sound loan portfolio, and to detect any deterioration in credit quality so that remedial actions can be implemented.

In 2013, the Bank created the Credit Management Group (CMG) to further strengthen its credit process. CMG provides rigid screening and prudent credit evaluation of loan applications as well as periodic assessment of quality of loan portfolio of the Bank.

Aside from strengthening its credit evaluation process, the Bank has increased its provisioning for loan losses to address potential rise in non-performing loans as a result of robust expansion in its loan portfolio. In addition, it has pursued a speedy disposition of its ROPA

### Exposure Credit Risk

The following shows the concentration of credit risk by industry at the reporting date:

#### CONCENTRATION BY INDUSTRY (in million ₱)

	Dec 2016	Dec 2015
Real Estate Activities	1,503	1,902
Wholesale and Retail Trade	1,219	1,240
Salary-based General-Purpose Consumption Loans	836	881
Public Administration and Defense / Compulsory Social Sec.	431	500
Financial and Insurance Activities	421	458
Administrative and Support Service Activities	286	247
Agricultural, Hunting and Forestry	223	241
Construction	174	215
Education	154	147
Other Services Activities	153	109
*Others	468	475
<b>Total</b>	<b>5,869</b>	<b>6,415</b>
<b>Allowance for Credit Losses</b>	<b>295</b>	<b>209</b>
	5,574	6,206

*\*Others include the following sector - Mining and Quarrying, Manufacturing, Electricity, Gas, Steam and Air-conditioning Supply, Water Supply, Sewerage and Waste Management, Accommodation and Food Service, Activities, Transportation and Storage, Information and Communication, Professional, Scientific and Technical Activities, Human Health and Social Work Activities, Arts, Entertainment and Recreation, Activities of Households as Employers, Activities of Extra-Territorial Org. and Bodies, and Motor Vehicle Loans*

In terms of credit risk monitoring, the Bank prepares a monthly report on credit quality as summarized below (in Millions):

	2016	2015
Neither past due nor impaired	3,642	
Past Due but not impaired	122	
Impaired	2,105	
<b>Gross</b>	<b>5,869</b>	
Less: Specific Allowance for credit losses	295	
<b>Net</b>	<b>5,574</b>	

The Bank further classify its non-performing loans into secured and unsecured (in Millions):

	2016	%	2015	%
Secured	1,610	76%	181	39%
Unsecured	495	24%	281	61%
<b>Total</b>	<b>2,105</b>	<b>100%</b>	<b>462</b>	<b>100%</b>

CREDIT RISK-WEIGHTED ASSETS (In millions)	YEAR	
	2016	2015
<b>A. Credit Risk Weighted Assets</b>		
Total Risk-Weighted On-Balance Sheet Assets	10,156	9,502
Total Risk-Weighted Off-Balance Sheet Assets	-	-
Total Counterparty Risk Weighted Assets in the Banking Book (Derivatives and Repo-Style Transactions)	-	-
<b>Sub-total: Gross Risk-Weighted Assets</b>	<b>10,156</b>	<b>9,502</b>
<b>B. Deductions:</b>		
General loan loss provision	-	-
Unbooked valuation reserves and other capital affecting asset accounts based on the latest report of examination as approved by the Monetary Board	503	46
<b>Sub-total: Deductions</b>	<b>503</b>	<b>46</b>
<b>C. Total (C = A + B)</b>	<b>10,659</b>	<b>9,456</b>
<b>Capital Requirements for Credit</b>	<b>1,065</b>	<b>946</b>

## Market Risk

The bank's exposure to market risks originates primarily from its risk-taking activities on fixed income investments in securities and foreign exchange effects. Transaction limits are used to operationally manage market risks.

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices, commodity prices and other market indicators may affect the Bank's income or values of its financial assets. The Bank uses mark-to-market and factor sensitivity to manage risk on its securities portfolios.

Postbank market risks originate from its holdings of debt securities mainly as compliance to liquidity reserves for government deposits. Further, it classifies its debt securities exposures under trading and non-trading portfolios.

The Bank has no outstanding exposure under the Held for Trading (HFT) portfolio as of December 31, 2015.

For debt securities under the Available for Sale Securities (AFS), no significant market risk exposure is observed as the mark-to-market valuation reflected a positive P4 million increasing the portfolio net carrying amount to P75 million.

For Unquoted Debt Securities Classified as Loans (UDSCL) being used as alternative compliance to agri-agra law, the Bank's exposure amounted to P 50 million with an average coupon rate 6.5%.

## Liquidity Risk

Liquidity risk pertains to potential losses to the bank arising from either its inability to meet its obligations or to fund maturing liabilities as they fall due. Senior Management through the

Assets and Liabilities Management Committee (ALCO) is responsible for the implementation of sound policies and procedures keeping in mind the strategic direction and risk appetite of the Bank.

Liquidity risk is the risk of loss to earnings or capital due to inability to meet funding requirements or payment of obligations as they fall due. Postbank liquidity policy is to maintain sufficient liquidity level not only to service deposit withdrawals and other contractual obligations but also to provide ample buffer to meet any unplanned changes in funding sources or changes in market conditions. Part of liquidity management strategy is to keep a sizeable amount of liquid assets like marketable government securities, and Deposit Balances with BSP such as Special Deposit accounts (SDA).

The Assets and Liabilities Management Committee (ALCO) and Treasury Group supervise the liquidity planning of the Bank both for the day-to-day funding requirements and for balance sheet management purposes.

Daily cash flow projection and analysis of liquidity position are prepared with any excess funds temporarily park on interbank placements or deposit balances with BSP.

The liquidity risk management process at Postbank also includes the preparation of liquidity gap reports. Also Called Maximum Cumulative Outflow (MCO) report, it reveals the mismatch on the tenor of the assets against liabilities with risk that the Bank may be forced to borrow at higher rate or sell its assets at a discount to generate the required liquidity. The analysis of the MCO report contains risk mitigating measures on how to close the negative gaps particularly on the shorter tenor buckets. The MCO report also takes into account behavioral pattern of deposit withdrawal specifically deposits retained beyond the contractual maturity



Presented below is the Maximum Cumulative Outflow (MCO) report as of December 31, 2015 (in Million Pesos)

### Liquidity Gap Report As of Dec 31, 2016

QUALIFYING CAPITAL	Up to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years	Total
<b>Assets</b>					
Cash and Cash Equivalents	98	-	-	-	98
Investment Securities	4,582	-	-	-	4,582
Due from BSP & other banks	48	-	50	548	646
Loans and Receivables	486	1,083	1,159	2,886	5,614
Other assets	118	24	41	475	658
	<b>5,332</b>	<b>1,107</b>	<b>1,250</b>	<b>3,909</b>	<b>11,598</b>
<b>Liabilities</b>					
Deposit Liabilities	9,244	476	4	-	9,724
Accrued Interest Expense	5	10	-	-	15
Other liabilities	877	-	-	-	<b>877</b>
	10,126	486	4	-	10,616
<b>Equity*</b>					
Net Liquidity Surplus (Gap)	(4,794)	621	1,246	982	
Cumulative Gap	(4,794)	(4,173)	(2,927)	2,927	

\*includes accounts in Foreign Currency deposit Unit (FCDU)/ Expanded Foreign Currency Deposit Unit (FCDU)

<sup>1</sup>/Includes Core deposits or those funds expected to remain with the Bank after deducting for volatile deposits and reserves that can be used for lending operations.

### Interest Rate Risk

The bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable levels. Risk is addressed on a transactional level by matching the benchmark rate or basis for repricing of a particular asset with that of the equivalent source of fund at the onset of the transaction.

Further, sensitivity analysis is regularly performed to efficiently manage risk on earnings.

In measuring the interest rate risk, Postbank determines the sensitivity of its assets and liabilities to movements the interest rates by way of re-pricing gap analysis.

The re-pricing gap analysis is calculated by first slotting the interest rate sensitive assets and liabilities into tenor buckets according to next re-pricing date (or the time remaining to maturity if the account has a fixed term), and then obtaining the difference or gap per defined buckets. A gap is considered negative when the level of interest rate sensitive liabilities exceeds that of assets. Conversely, a positive gap indicates more interest rate sensitive assets than liabilities. In an increasing interest rate scenario, a negative re-pricing gap would translate into potential reduction in interest income.

The following table shows the re-pricing gap position of Postbank as of December 31, 2016 (In P MM):

QUALIFYING CAPITAL	Up to 1 mo.	Over 1 mo. to 3 months	Over 3 mos. to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 15 years	Over 15 Years	Total
<b>Financial Assets</b>								
Due from Other banks	1,016	-	-	-	-	-	-	1,016
Total Investments	48	-	-	50	-	548	-	646
Total Loans and Receivables	1,228	197	250	688	307	748	6	3,424
Sales Contract Receivables	-	-	1	5	28	-	-	34
<b>Total Financial Assets</b>	<b>2,292</b>	<b>197</b>	<b>251</b>	<b>743</b>	<b>335</b>	<b>1,296</b>	<b>6</b>	<b>5,120</b>
<b>FINANCIAL LIABILITIES</b>								
Deposit Liabilities	4,303	4,793	626	-	2	-	-	9,724
Total Financial Liabilities	4,303	4,793	626	-	2	-	-	9,724
Repricing Gap	(2,011)	(4,596)	(375)	743	333	1,296	6	(4,604)

### Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk is inherent in any activity, function or unit of the Bank. Top-level risk assessment is performed by the Board of Directors and Corporate Governance and Risk Management Committee (CGRMC) in its Annual Planning exercise.

	YEAR	
	2016	2015
A. Gross Income	553.0	478.5
B. Capital Change	66.4	57.4
C. Adjusted Capital Change	83.0	71.8

### Legal Risk

Legal Risk is defined as the risk of unenforceable contracts, lawsuits, adverse judgments or other legal proceedings disrupting or adversely affecting the operations or condition of a bank. Legal risk may rise due to a variety of issues, from broad legal or jurisdictional issues to something as simple as a missing provision in an otherwise valid agreement. The Bank's legal risk is centrally managed through its Legal Services Department (LSD) via control structures such as reviews of standard and non-standard legal documents covering transactions of the Bank and issuance of legal opinions. LSD conducts a periodic review of the Legal Risk Manual to determine whether there is a need to modify, revise, or amend any provisions to address new laws, rules and regulations as well as changes in the Bank's legal risk profile.



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# Money Laundering and Terrorist Prevention Program

## BASIC PRINCIPLES

The Bank adopts the following thrusts aimed at combating money laundering and terrorist financing activities:

### 1. Commitment of Compliance with AMLA

The Bank shall serve and satisfy the needs and best interests of its clients, employees, stockholders and community with high ethical standards to protect and preserve the confidentiality of customer's accounts and a commitment to comply with the regulatory requirements aimed at combating money laundering and terrorist financing.

### 2. Know Your Customer Policy

The Bank shall establish well-defined policies to sufficiently know the true identity of its client based on official identification documents and prevent suspicious individuals or entities from opening or maintaining an account or transacting with the Bank.

### 3. Risk-Based Money Laundering and Financing of Terrorism Prevention Program

The Bank shall adopt and implement a sound AML and terrorist financing risk management system that identifies, assesses, monitors and control risks associated with money laundering and terrorist financing to ensure that the Bank shall not be used as a vehicle to legitimize proceeds of predicate crimes or to facilitate or finance terrorism.

### 4. Cooperation with Law Enforcement Agencies

The Bank shall undertake to fully cooperate with the law enforcement agencies and regulatory agencies through the extent that it can do so under all applicable laws and regulations making sure that all identified instances of suspicious transactions are handled properly and reported in accordance with AMLA, as amended.

### 5. Policies, Procedures and Training

The Bank shall adopt policies consistent with the AMLA, as amended, and its RIRR, and ensure that its officers and staff are informed of these policies and adequately trained to fully and consistently comply with their obligations. To promote adherence to this principles, the Bank shall implement specific procedures for customer identification, retention of financial transaction documents and reporting of covered and suspicious transactions.

## AML COMMITTEE

The AML Committee shall have the following duties and responsibilities:

1. Receive and deliberate on regulatory issuances relative to AML, and formulate policies and procedures necessary to enhance internal controls against money laundering and terrorist financing activities;
2. Review sufficiency of logistic support to ensure complete capture in the AML reporting system of all covered transactions and suspicious transactions reportable to the AMLC within the prescribed deadline to avoid

- the Bank's possible exposure to sanctions or penalties;
3. Refer to the Office of the President, the Management Committee and/or the Board of Directors issues/non-compliance with the AMLA, the MLPP, and other relevant rules and regulations that may result to compliance or reputational risk, or loss on the part of the Bank;
  4. Conduct review of the Money Laundering and Terrorist Financing Prevention Program (MLPP), and revise or update it for new AML regulatory issuances at least annually or when necessary as an offshoot of an examination;
  5. Recommend and/or implement corrective and preventive measures, including but not limited to imposition of sanction/s to erring personnel or unit/s to address AML issues and improve compliance with the AMLA, the MLPP, and other related rules and regulations in accordance with the Bank's Code of Conduct, laws, and other rules and regulations; and
  6. Invite internal and/or external resource person(s) if an issue so warrants.

### **KNOW YOUR CUSTOMER POLICY**

The identity of the customer or his/her/its representative who enters into a business relationship or conducts a transaction with the Bank shall be established from official documents in accordance with the Bank's existing policy. In case of corporate clients, their legal existence and organizational structure as well as the authority and identification of all persons purporting to act on their behalf shall also be verified.

The Bank shall implement its Know Your Customer (KYC) Policy before establishing a business relationship to:

1. Ensure that only legitimate and bona fide customers are accepted;
2. Ensure that customers are properly identified and that it understands the risks they may pose;
3. Verify the identity of customers using reliable and independent documentation;

4. Determine any unusual transaction activity or activity that is not commensurate with the client's known business or financial capacity or a deviation from client's profile and past transaction; and
5. Prevent the creation of fictitious account.

### **I. Customer Acceptance**

The following procedures must be observed when establishing a business relationship:

- a. Personal appearance of the account holder;
- b. Verification of the photograph appearing on the ID card presented with the person presenting such document;
- c. Scrutiny of original identification documents presented;
- d. Comparison of signatures with live signatures;
- e. Completion of the account opening form;
- f. Checking of the completeness, accuracy and authenticity of documents and information; and
- g. Risk profiling and due diligence.

### **II. Customer Identification and Due Diligence**

1. Customer due diligence shall be undertaken when the Bank:
  - a. Establishes business relations with any customer;
  - b. Undertakes any occasional but relevant business transactions for any customer who has not otherwise established relations with the Bank;
  - c. There is suspicion of money laundering or terrorism financing; or
  - d. There is doubt about the veracity or adequacy of previously obtained customer identification data.

### **III. Use of Alias**

1. The Bank shall maintain accounts only in the true and full name of the account owner. The provisions of existing law to the contrary notwithstanding, anonymous accounts, accounts under

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fictitious names, numbered checking accounts, and all other similar accounts shall be absolutely prohibited.

2. The true and full identity of new individual customers shall be established and accounts shall be opened and maintained only in the true and full name of the account owner or owners.
3. The identity of corporate, partnership and sole proprietorship entities as well as the stockholders/partners/owners, directors, officers and their authorized signatory/ies shall be established and recorded.
4. The use of an alias shall be absolutely prohibited.  
The alias given by a client shall be documented and shall be checked against watch lists and on the internet, if the branch or unit has an access. Any adverse finding on said alias shall be treated in the same manner with the true and real name of the client.

#### **IV. Face-to-Face Contact**

No new accounts shall be opened and created without face-to-face contact and personal interview between the Bank's authorized personnel and potential customer except under the following arrangements:

- a. Outsourcing arrangement;
- b. Account opened through a trustee, agent, nominee or intermediary; and
- c. Third party reliance.

The face-to-face contact and personal interview shall be documented by stamping the CIS with a notation "Face-to-face and personal interview conducted" or similar notation.

It shall be the duty of the branch accountant or the department head to monitor on a monthly basis the implementation of the outsourcing arrangements and third-party reliance arrangement, if any.

The same shall be subject of an annual review by the branch head or area head or

group head on an annual basis while Compliance Office will test on a sample basis the compliance of these units on the requirements of the outsourcing and/or third party reliance arrangements.

#### **V. "Doing Business As" Accounts**

1. Where the volume and amount of transaction are not commensurate with the financial profile of the individual client, the branch/unit shall inquire from the client the source and nature of funds. Proof of source of funds may be requested from the client.
2. Where it is ascertained that individual account is used for business or trade transactions, the branch/unit shall fully identify and document said business or trade.
3. The risk classification of the individual client shall be updated taking into account his/her business or trade. The corresponding due diligence shall likewise be conducted.
4. Where the new risk classification is high risk, senior officer's approval shall be required for the continuance of business relationship.
5. Where additional information cannot be obtained, or any information or document provided is false or falsified, or result of the validation process is unsatisfactory, the Bank shall immediately close the account and refrain from further conducting business relationship with the customer without prejudice to the reporting of a suspicious transaction to the AMLC when circumstances warrant.

#### **VI. Due Diligence on Foreign Exchange Dealers, Money Changers and Remittance Agents**

The Bank shall take extra caution and vigilance and shall perform enhanced due diligence upon onboarding and during transaction monitoring when dealing with foreign exchange dealers (FXDs), money changers (MCs) and remittance agents (RAs). For this purpose, the following shall be conducted:

1. The Bank shall only deal with FXDs, MCs and RAs registered with the BSP for appropriate authority to engage in a specified business.
2. When dealing with RAs as remittance partners or tie-up or if the accounts are being used to facilitate their due diligence, the Bank shall conduct appropriate due diligence necessary to the relationship to ensure that it will not be used as channel for money laundering or terrorist financing activities.
3. The Bank shall conduct risk assessment of the FXD, MC and RA customers, considering relevant factors such as business operations, types of customers, product/service availed, distribution channel, jurisdictions they are exposed to and expected account activity.
4. Perform enhanced due diligence. Unsatisfactory result of the due diligence process shall be a ground for denying the business relationship.
5. Perform continuing account and transaction monitoring

## **FUND / WIRE TRANSFER**

The Bank, as beneficiary institution, shall not accept instructions to pay out fund transfers to non-customer beneficiary, unless it has conducted the necessary customer due diligence to establish the true and full identity and existence of said beneficiary. Should the originator and beneficiary be the same person, the Bank may rely on the customer due diligence conducted by the originating institution provided the rules on Third Party Reliance are met, treating the originating institution as Third Party.

The Bank, as originating institution, shall not accept instructions to wire/fund transfer from a non-customer beneficiary, unless it has conducted the necessary customer due diligence to establish the true and full identity and existence of said originator.

## **HANDLING OF CERTAIN TRANSACTIONS**

### **I. Cashier's, Manager's and Certified Checks**

The Bank may sell cashier's, manager's or certified checks only to its existing customers and shall maintain a register of said checks indicating the following information:

- a. True and full name of the buyer or the applicant if buying on behalf of an entity;
- b. Account number;
- c. Date of issuance and the number of the check;
- d. Name of the payee;
- e. Amount; and
- f. Purpose of such transaction.

### **II. Second-Endorsed Checks**

The Bank shall apply enhanced due diligence in the acceptance of second endorsed checks.

The Bank shall limit the acceptance of second-endorsed checks from properly identified customers and only after establishing that the nature of the business of said customer justifies, or at least makes practical, the deposit of second-endorsed check.

In case of isolated transactions involving deposits of second-endorsed checks by customer who are not engaged in trade or business, the true and full identity of the first endorser shall be established and the record of the identification shall also be kept for five (5) years.

### **III. Spurious Checks**

Spurious checks are checks that were illegally printed to defraud banks or the payee. The Bank shall consider a check as spurious if it does not contain the security features set by the drawee bank or security features of the check have been maliciously altered.

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#### **IV. Prohibited Accounts**

Anonymous accounts, accounts under fictitious names, numbered checking accounts, and all other similar accounts are considered prohibited accounts.

No peso and foreign currency non-checking numbered accounts shall be allowed without establishing the true and full identity and existence of customers and applying enhanced due diligence.

Peso and foreign currency non-checking numbered accounts existing prior to October 17, 2001 shall continue to exist but the Bank shall establish the true and full identity and existence of the beneficial owners of such accounts and applying enhanced due diligence.

#### **V. Dormant Account**

The Bank should do everything to prevent checking and savings accounts from becoming dormant. If the account is inactive, a short letter to the depositor encouraging him/her to use his/her account.

#### **VI. Closed Accounts**

Account being closed, either client or bank-initiated due to improper handling, shall be required to surrender all unused checks to the Cash Department.

The branch/unit concerned should retrieve all unused checks from the depositor of closed accounts to prevent further negotiation and/or use.

### **CORRESPONDENT BANKING**

The establishment of correspondent banking relationship (such as credit line, deposit account or treasury facilities) with financial institutions shall be the responsibility of Treasury Group.

The Treasury Group shall conduct financial analysis and evaluation on correspondent bank and the result shall be forwarded to the Risk Management Office (RMO) for its counterchecking and validation.

### **MONITORING & REPORTING OF COVERED & SUSPICIOUS TRANSACTIONS**

It shall be the duty of the branch accountant (for branch), account officer (for loans) or the compliance coordinating officer (for other units) to monitor and report transactions or circumstances that may qualify as suspicious transactions, regardless of amount or that will raise a “red flag” for purposes of conducting further verification or investigation, or transactions involving amounts below the threshold to facilitate the process of aggregating them for purposes of future reporting of such transactions to the AMLC when their aggregated amounts breach the threshold. Likewise, all client-facing personnel of loans, cash treasury, and ROPA units, and remittance and ATM departments shall likewise monitor the transactions of client, especially those of high risk clients.

The accountant shall conduct callback procedures on all financial and non-financial transactions. Non-financial transactions include completeness and accuracy of KYC documents and information for newly opened accounts and completeness of information in purchase of manager’s check application.

#### **I. AMLA Extraction Tool**

The Compliance Office shall suspicious transactions through the aid of the AMLA Monitoring Tool developed and maintained by the ISTMG

#### **II. REPORTING OF COVERED AND SUSPICIOUS TRANSACTIONS**

The AMLA, as amended, requires the reporting of suspicious and covered transactions to the AMLC.

Branches, MBOs and concerned head office units shall submit to Compliance Office: (a) CTRs within one (1) working day from date of transaction; and (b) STRs within one working (1) day from the date of occurrence thereof

## **RECORDS KEEPING & RETENTION**

The Bank shall prepare and maintain documents on customer identification and transactions such that:

1. The requirements of the AMLA, as amended, are met;
2. Any transaction affected can be reconstructed and from which the AMLC can be able to compile an audit trail for suspected money laundering as reported; and
3. It can satisfy within a reasonable time any inquiry or order from the AMLC as to disclosure of information, including whether a particular person is the customer or beneficial owner of transactions conducted through the Bank.

## **TRAINING OF EMPLOYEES**

The Bank shall institute adequate screening and recruitment procedures for Bank personnel including designated compliance officer(s).

All employees shall undergo continuing education and training on the AMLA to enable them to fully comply with all their obligations under the law and its RIRR.

## **HANDLING OF FREEZE ORDERS, DIRECTIVES & ISSUANCES**

The AMLC, upon determining probable cause, shall file an ex-parte application before the Court of Appeals (CA) for the issuance of a freeze order on any monetary instrument or property.

The Notice of Freeze Order from the CA shall be received by the Board of Directors chairman, Corporate Governance and Risk Management Committee chairman, Legal Services Department Head/General Counsel, Compliance Officer, or Branch Banking Group Head or, in their absence all of the foregoing, the duly designated representative or office-in-charge for dissemination to the branches, offices and units concerned.

For branches, only the branch head or in his absence, the duly designated officer-in-charge, shall be authorized to receive the notice of freeze order. He/She shall immediately communicate the same to the Legal Services and the Compliance Office for dissemination and action.

## **COMPLIANCE TESTING & AUDIT PROGRAM**

### **I. COMPLIANCE TESTING**

The Bank, through the Compliance Office, shall ensure compliance by all responsible officers and employees with the AMLA, as amended, the RIRR and this MLPP. It shall conduct periodic checking which covers, among others, evaluation of existing processes, policies and procedures including ongoing monitoring of performance by staff and officers involved in money laundering and terrorist financing prevention, reporting channels, effectivity of the electronic money laundering transaction monitoring and record retention system through sample testing and review of audit or examination reports.

### **II. AUDIT PROGRAM**

The internal audit function associated with money laundering and terrorist financing shall be conducted by the Internal Audit Office. It shall have an independent audit program that will ensure the completeness and accuracy of the information and identification documents obtained from clients, the covered and suspicious transaction reports submitted to the AMLC, and the records retained as well as adequacy and effectiveness of the training program on the prevention of money laundering and terrorism financing

### **III. MONITORING OF CORRECTIVE ACTIONS**

#### **Internal Audit Findings**

The Internal Audit Office (IAO) shall provide final audit report to the audited branch/unit, Group Head of the auditee and the Audit and IT Oversight Committee.

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## External Audit Findings

The Compliance Office shall be the primary unit in charge with communicating the findings of the audit conducted by the BSP, the Commission on Audit and other pertinent supervisory and regulatory bodies as well as monitoring of corrective actions undertaken by the branch/unit concerned.

## OTHER RELEVANT AMLA PROVISIONS

### I. EXEMPTION FROM BANK SECRECY LAWS

When reporting covered or suspicious transactions to the AMLC, covered institutions and their officers and employees shall not be deemed to have violated R.A. No. 1405, as amended, R.A. No. 6426, as amended, R.A. No. 8791 and other similar laws, but are prohibited from communicating, directly or indirectly, in any manner or by any means, to any person, the fact that a covered or suspicious transaction report was made, the contents thereof, or any information in relation thereto. In case of violation thereof, the concerned officer and employee of the covered institution shall be criminally liable.

### II. CONFIDENTIALITY PROVISION

When reporting covered transactions or suspicious transactions to the AMLC, covered persons, their directors, officers and employees are prohibited from communicating directly or indirectly, in any manner or by any means, to any person, entity, or the media, the fact that a covered or suspicious transaction report was made, the content thereof, or any other information in relation thereto. Any information about such reporting shall not be published or aired, in any manner or form, by the mass media, or through electronic mail, or other similar devices. In case of violation thereof, the concerned director, officer and employee of the covered person shall be held criminally liable.

### III. SAFE HARBOR PROVISION

No administrative, criminal or civil proceedings shall lie against any person for having made a CTR or an STR in the regular performance of his duties and in good faith, whether or not such reporting results in any criminal prosecution under the AMLA, as amended or any other Philippine law.

### IV. PROHIBITION AGAINST POLITICAL PERSECUTION

The AMLA, as amended, and its RIRR shall not be used for political persecution or harassment or as an instrument to hamper competition in trade or commerce. No case for money laundering may be filed to the prejudice of a candidate for an electoral office during an election period.

### V. AUTHORITY OF AMLC TO INQUIRE INTO DEPOSITS OR INVESTMENTS

Notwithstanding the provisions of R.A. No. 1405, as amended; R.A. No. 6426, as amended; R.A. No. 8791, and other laws, the AMLC may inquire into or examine any particular deposit or investment, including related accounts, with any banking institution or non-bank financial institution, upon order by the Court of Appeals based on an *ex parte* application in cases of violation of the AMLA, as amended, when it has been established that probable cause exists that the deposits or investments involved, including related accounts, are in any way related to an unlawful activity or a money laundering offense, except in cases as provided in the immediately succeeding item.

### VI. BSP AUTHORITY TO CHECK COMPLIANCE WITH THE AMLA AND ITS RIRR

In the course of a periodic or special examination, the BSP may inquire into or examine bank accounts or investments, including customer identification, account opening, and transaction documents, for the purpose of checking compliance by the Bank with the requirements of the AMLA, as amended, its RIRR, other AMLC

issuances and BSP Circular No. 706, as amended.

## **PENALTIES**

### **1. Penalties for Money Laundering**

The penalty of imprisonment ranging from seven (7) to fourteen (14) years and a fine of not less than Php3,000,000 but not more than twice the value of the monetary instrument or property involved in the offense, shall be imposed upon a person convicted of any of the following acts under Section 4(a), (b), (c) and (d) of the AMLA, as amended:

### **2. Penalties for Failure to Keep Records**

The penalty of imprisonment of six (6) months to one (1) year or a fine of not less than Php100,000 but not more than Php500,000, or both, shall be imposed on a person convicted under Section 9(b) of the AMLA, as amended, for failure to keep records within the prescribed period.

### **3. Penalties for Malicious Reporting**

Any person who, with malice, or in bad faith, reports or files a completely unwarranted or false information relative to money laundering transaction against any person shall be subject to a penalty to six (6) months to four (4) years imprisonment and a fine of not less than Php100,000 but not more than Php500,000, at the discretion of the court: *Provided*, That the offender is not entitled to avail the benefits of the Probation Law.

### **4. Penalties for Breach of Confidentiality**

The punishment of imprisonment ranging from three (3) to eight (8) years and a fine of not less than Php500,000 but not more than Php1,000,000 shall be imposed on a person convicted for a violation under Section 9(c) for breach of confidentiality. In the case of a breach of confidentiality that is published or reported by media, the responsible reporter, writer, president,

publisher, manager and editor-in-chief shall be liable the AMLA, as amended.

### **5. Penalties for Knowingly Participating in the Commission of Money Laundering**

The penalty of imprisonment ranging from four (4) to seven (7) years and a fine corresponding to not more than 200% of the value of the monetary instrument or property laundered shall be imposed upon the covered person, its directors, officers or personnel who knowingly participated in the commission of the crime of money laundering.

### **6. Imposition of Administrative Sanctions**

After due notice and hearing, the AMLC shall, at its discretion, impose sanctions, including monetary penalties, warning or reprimand, upon any covered person, its directors, officers, employees or any other person for the violation of the AMLA and its RIRR, or for failure or refusal to comply with AMLC orders, resolutions and other issuances. Such monetary penalties shall be in amounts as may be determined by the AMLC to be appropriate, which shall not be more than Php500,000 per violation.



ANTI-MONEY LAUNDERING  
**Deter. Detect.  
Prevent.**

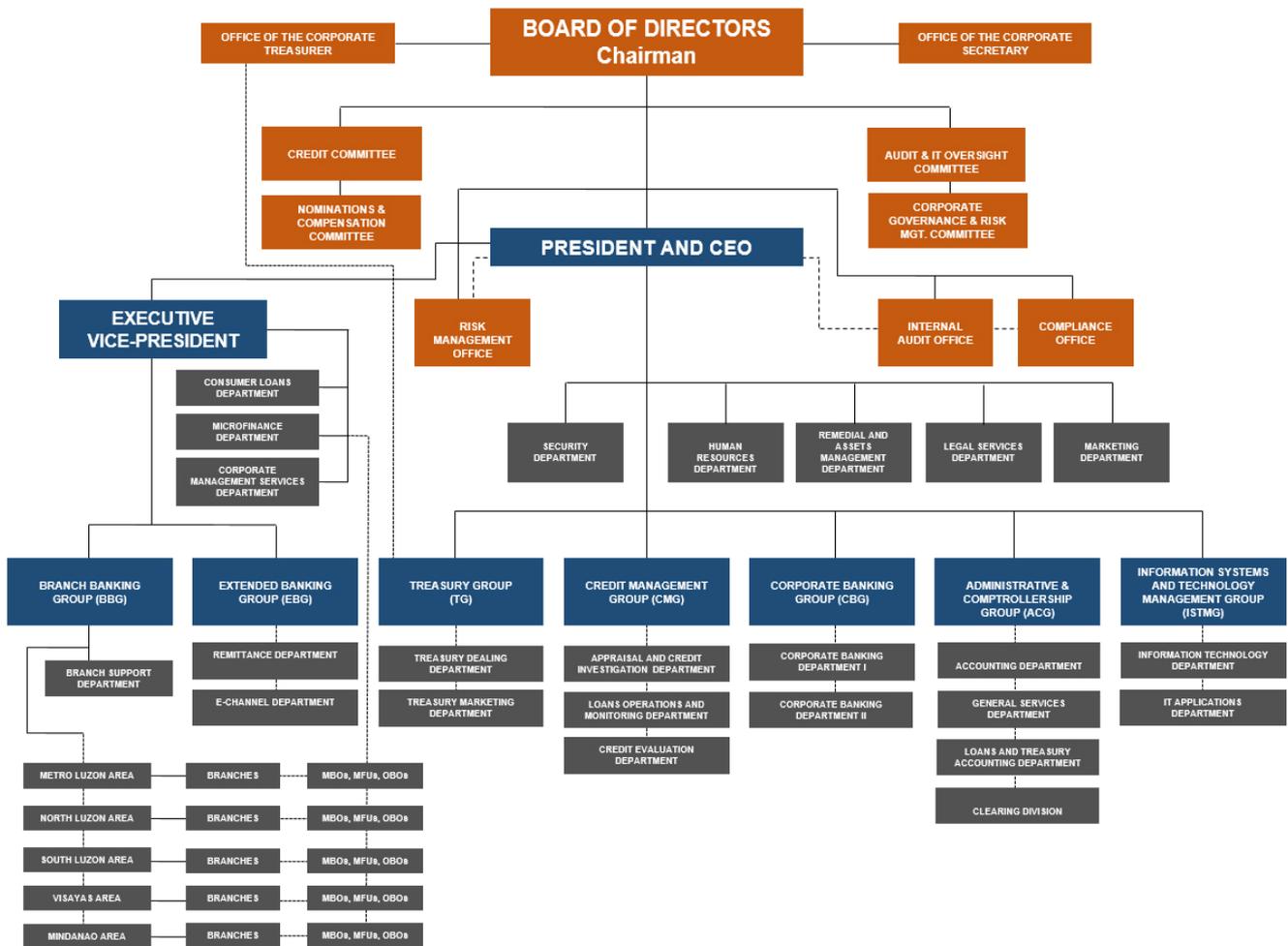


# Corporate Governance

## GOVERNANCE AND ORGANIZATIONAL STRUCTURE

Postbank's organizational structure as reorganized was approved by the Governance Commission for GOCCs (GCG) via Memorandum Order 2015-08. This reflects the corporate governance of the Bank as it defines a governance hierarchy

led by the Bank's Board of Directors where its duties and responsibilities on oversight, assessment and review are handled by the four (4) Committees namely: (1) Credit Committee; (2) Audit and IT Oversight Committee; (3) Corporate Governance and





Risk Management Committee; and (4) Nominations and Compensation Committee. These committees are supported by independent offices administratively supervised by the Office of the President and functionally under the Board of Directors viz: (1) Risk Management Office; (2) Compliance Office; and (3) Internal Audit Office. The Office of the Corporate Treasurer and The Office of the Corporate Secretary are also the Board of Directors

The President and CEO supervises the Office of the Executive Vice-President and the five (5) groups namely: (1) The Treasury Group; (2) Credit Management Group; (3) Corporate Banking Group; (4) Administrative and Comptrollership Group; and (5) Information Systems and Technology Management Group. Also, five (5) Departments are directly under the Office of the President and CEO viz: (1) Security Department; (2) Human Resources

Department; (3) Remedial and Asset Management Department; (4) Legal Services Department; and (5) Marketing Department. On the other hand, the Office of the Executive Vice-President supervises the Branch Banking Group and the Extended Banking Group. Also, there are three (3) departments also being supervised by the Office of the EVP viz: (1) Corporate Management Services Department; (2) Consumer Loans Department; and (3) Microfinance Department.

## ORGANIZATIONAL FUNCTIONS

### Office of the Corporate Treasurer

- Custody and control of all funds, securities and properties of the Bank.
- Deposit or cause to be deposited all monies and other valuable effects in the

### FUNCTIONAL ORGANIZATIONAL STRUCTURE



**Functional Organizational Structure**  
*which focuses on job functions or functional areas*

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name and to the credit of Bank in compliance with applicable laws, rules and regulations;

- Regularly and at least quarterly render to the PCEO or to the Board an account of the condition of the funds of the Bank and all of his transactions as such;
- Ensure fund availability on a timely basis and at the most economical means;
- Optimize yields in temporary excess funds, but at the same time ensure the implementation of appropriate risk management measures over its resources;
- Provide relevant and timely financial market information;
- Perform such other responsibilities as the Board may impose.

#### **Office of the Corporate Secretary**

- Prepare agenda and minutes of Board and Committee Meetings in consultation with the Chairperson and PCEO;
- Ensure that the minutes are accurately recorded, approved and attested;
- Serve as secretariat for all meeting of the Board;
- Ensure that records of the Bank are maintained as required by law and made available when required by authorized persons;
- Ensure that proper notification of Directors and Members' meetings is given. It shall manage general correspondence of the Board of Directors, except as such correspondence assigned to others; and
- Perform such other duties and responsibilities as may be assigned by the PPSB Board of Directors and Chairperson.

#### **Risk Management Office**

- Responsible for overseeing the Bank's adoption and maintenance of an adequate risk management program involving identification, measurement, monitoring and controlling risks.

- It is responsible for the implementation of the approved Risk Management Charter.

#### **Internal Audit Office**

- Performs an independent, critical and systematic examination or review of accounting reports, documents, records and procedures for the purpose of determining their conformity with prescribed criteria.
- Responsible for reviewing all financial transactions, management practices and such other practices of the bank to determine their conformity to prescribed government regulations, accounting practices and procedures for the purpose of determining its effectiveness and efficiency in its operations.
- Responsible for conducting an independent and systematic review of existing internal control procedures to ensure adequacy and when necessary, recommend changes to improve their adequacy in safeguarding bank assets, promoting efficiency of operations and ensuring the reliability and security of its records.
- Plans, directs and controls activities of auditing to achieve the established objectives and targets of the office within the guidelines and limits of authority prescribed by the Board of Directors and other regulatory bodies.
- It shall be responsible for the implementation of the approved Internal Audit Charter.
- Perform such other duties and functions as are incidental to the office and those which, the Board of Directors may from time to time require and/or prescribe.

#### **Compliance Office**

- Responsible for the design of the Bank's compliance system that includes the compliance program specifically identifying and mitigating

business risks that may erode the value of the Bank.

- It shall be responsible for the implementation of the approved Compliance Charter.

#### **OFFICE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER**

- Exercise general supervision and authority over the regular course of business, affairs, and property of the Bank, over its employees and officers;
- See to it that all orders and resolutions of the Board are carried into effect;
- Submit to the Board as soon as possible after the close of each fiscal year, and to the shareholders at the annual meeting, if applicable, a complete report of the operations of the Bank for the preceding year, and the state of its affairs;
- Report to the Board from time to time all matters which the interest of the Bank may require to be brought to its notice; and
- Perform such other duties and responsibilities as the Board may impose.

#### **Security Department**

- Responsible for the preparation of a reasonable, effective and updated security program for the Bank and overall direct supervision and implementation of the Bank's Security Program to protect its employees, resources, and clients.
- Assists Human Resource Department in background investigation of employees.

#### **Human Resources Department**

- Responsible for the welfare of the employees during their employment with the Bank. Develops, devises, advises on and implements HR policies, systems and procedures.
- Provides adequate and competent workforce through training and development.
- It shall be in charge of the administration of personnel movements and processing of employee benefits.

- Monitors the implementation of the succession plan.
- Administers the job evaluation program. Manages job performance and total compensation system including benefits, incentives and rewards.
- Acts as Secretariat to the Ad Hoc Committee concerning personnel violations.

#### **Legal Services Department**

- Renders legal advice and reviews documents and contracts for legal sufficiency.
- Analyzes and advises Management on existing and new cases and rulings affecting banking operations.

#### **Remedial and Assets Management Department**

- Responsible for addressing and controlling the risks of loan delinquency and loan default
- It shall address the growing non—performing loan (NPL) portfolio of the Bank and ensure its maximum collection/recovery of assets prior to its endorsement to the Legal Services Department

#### **Marketing Department**

- Responsible for conducting market research, identifying business opportunities and developing strategies for achieving company targets and objectives.
- Responsible for crafting the Bank's corporate image to best reflect its chosen market niche.

#### **TREASURY GROUP**

##### **Treasury Dealing Department**

- Manage the Bank's resources through investment of excess funds in local and foreign currency denominated debt instruments as approved by the Board of Directors.
- Monitor the Bank's liquidity position and engage in interbank borrowing and lending to meet liquidity needs of

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operations and Bangko Sentral ng Pilipinas (BSP) cover requirements.

- Set guidelines for pricing of deposit products to attract funders and optimize funding cost.

#### **Treasury Marketing Department**

- Conducts marketing activities to generate the necessary funding requirements to support lending and investing activities of the Bank

#### **CREDIT MANAGEMENT GROUP**

- Responsible for the implementation of sound credit administration procedures throughout the bank, ensuring full and appropriate use of bank resources, while still being consistent with your bank's goals and objectives.

#### **Appraisal and Credit Investigation Department**

- Responsible for the conduct of credit investigation and collateral appraisal. Assists in the initial evaluation of the loan applicant by way of credit investigation.
- Conducts inspection and appraisal of collateral offered for loans per approved lending guidelines.
- Directs and supervises the conduct of credit investigation, asset appraisal, project monitoring and such other fields of endeavor to attain planned objectives.
- Responsible for the safekeeping of all documents pertaining to credit investigation and collateral appraisal.

#### **Loans Operations and Monitoring Department**

- Responsible for the confirmation, documentation, settlement, collection, document safekeeping and report preparation functions of all transactions pertaining to loans operations. Acts as backroom of the head office.
- Responsible for the centralized loans operations reporting.
- Responsible for the Bank's central liability system.

#### **Credit Evaluation Department**

- Ensures the evaluation of the borrower's risk rating and collateral risk rating of all regular loans.
- Validates the submitted financial statements and analyzes the borrower's financial projections.
- Analyzes financial and other relevant data such as income growth, quality of management, and market share to determine expected loan profitability.
- Ensures accuracy of the financial analyses performed by the account officers prior to its submission to appropriate approving authorities.
- Provides industry analysis to lending units.

#### **CORPORATE BANKING GROUP**

- Plans, organizes, leads and controls all account management operations of the Bank consistent with the risk parameters set by Risk Management Office (RMO) and the Manual on Lending Operations (MOLO).
- It shall design and implement policies, procedures and guidelines on loans in accordance with regulatory bodies.
- It shall formulate and recommend policies, rules and regulations, systems and procedures for the effective implementation of its plans to improve and enhance competitiveness of the Bank at par within the industry.
- The Group shall also be responsible for the review and development of responsive products and services as well as development of strategies and promotional activities to boost the marketability of the different products and services of the Bank.

#### **Corporate Banking Department I and II**

- Total account management of all loan accounts from inception to collection at the Head Office consistent with the Manual on Lending Operations.
- Focus on markets identified by Management in accordance with the approved Business Plan of the Bank.

- Evaluate loan proposals and analyze financial and loan information to determine loan feasibility.
- Review, evaluate, validate, and endorse loan proposals to approving authorities in conformity with the risk parameters set by RMO.
- Plan the mix and volume of loan portfolio and formulate strategies to achieve them. Formulate, arrange / utilize special financing programs.

#### **ADMINISTRATIVE AND COMPTROLLERSHIP GROUP**

- Plans, leads, organizes, implements and controls all support services activities.
- Formulates and implements policies, procedures and guidelines in accordance with regulatory bodies to ensure efficient and effective operations without sacrificing internal control.
- Provides an efficient and effective accounting services to the Bank and implements the appropriate financial control and review system involving the corporate accounts.
- The Head of the ACG shall act as the Comptroller of the Bank.

#### **Accounting Department**

- Ensures effective implementation of the financial control system on operational expenses.
- Ensures that expenditures are within prescribed policies, laws, rules and regulations. Supervises the General Accounting Division,
- Reconciliation and Reports Division, and Budget Division. Responsible for the accounting / bookkeeping, budget administration, reports preparation, and disbursement activities of the Bank.

#### **Loans and Treasury Accounting Department**

- Responsible for the accounting and report preparation functions of all transactions pertaining to loans and treasury operations.

- Prepares proof sheets and block sheets for daily transactions and balances end-of-day transactions.
- Prepares schedules of past due accounts and accounts receivables, aging of past due accounts and accounts receivables, accrued interest receivables and payables, as well as other accounts that may be requested by Management.

#### **General Services Department**

- Provides general services Bankwide.
- Supervises purchase of supplies and other items for the Bank at the lowest cost possible without sacrificing quality.
- Provides and maintains transport and communication facilities as well as messengerial services to concerned units.
- Responsible for the maintenance and upkeep of the Bank's properties including but not limited to furniture, fixtures, equipment, vehicles, etc. Responsible for the timely dissemination of relevant information and documents to concerned units of the Bank.
- Responsible for the dispatch of vehicles, its proper maintenance and the development of policies and procedures to prolong the life and use of vehicles.
- It shall direct the disposal of unserviceable vehicles and shall take charge of the timely registration and insurance of all the Bank vehicles.
- Perform secretariat function for the Bids and Awards Committee.

#### **Clearing Division**

- Manages activities involving clearing and distributing of all checks received and sent by the Bank, and ensures timely and appropriate clearing operations to support all concerned units of the Bank.
- Recommends policies for appropriate and effective internal control in clearing operations.

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## **INFORMATION SYSTEMS AND TECHNOLOGY MANAGEMENT GROUP**

### **Information Technology Department**

- Provide the leadership, management and supervisory functions to plan, implement, operate and administer the various Information Technology components of hardware, software, networks and data center facilities (including backup) for both the Core Banking and Extended Banking Information Systems installed in the Head Office and the Branches.
- The work includes report preparation, data backup processes, online support to IS users, liaison and coordination with IT suppliers and service providers, feedback and recommendations for improvement in the various aspects of their work and current operations documentation and manuals, using the appropriate change reporting process.

### **IT Applications Department**

- Provide the leadership, management and supervisory functions to plan, develop, implement and administer the programs and projects for the application of computer and communications technologies to Core Banking Information Systems, to include Deposit, Loans, Treasury, Human Resources, Assets and Corporate Communications.
- The Department shall perform the functions of project management, systems design and development, construction and implementation, and change management. In the process, the Department shall perform outsourcing work (as alternative to in-house development) project risk assessments, risk mitigation and contingency plans, incorporation of security measures and control, and planning and design of security, control and business continuity plans and programs.

## **OFFICE OF THE EXECUTIVE VICE PRESIDENT**

- Responsible for the overall management of the Branch Banking Group, Microfinance Department, Consumer Loans Department, Remittance/Extended Banking Group and Corporate Services Management Department.

### **Corporate Management Services Department**

- Responsible for budgeting and financial planning, liaising with GCG and ensuring Bank compliance with its requirements, review and initiation of policy and process improvements, and providing secretariat support to the ManCom and LendCom.

### **Consumer Loans Department**

- Handle the formulation of marketing strategies to promote the Bank's consumer loan products as well as to provide regular updates on relevant policies and procedures pertinent thereto.

### **Microfinance Department**

- Overseas and regulates the operation of microfinance portfolio of the Bank. Provides support to enable microfinance units to achieve its purpose of extending the Bank's financial reach to the unbanked and underserved communities

## **EXTENDED BANKING GROUP**

### **Remittance Department**

- Responsible for the formulation and development of policies and procedures on remittance operations and its strict implementation.
- Monitors and controls incoming/outgoing remittances to and from outside the Bank to its destination.
- Manages the day-to-day operations on remittance from front line support to back-end monitoring and reconciliation.

### **E-Channel Department**

- Manage the Bank's ATM network to insure reliable operation and application of internal controls.
- Provide support to the preparation of initial studies, introduction, including launching activities and management and operation of new products such as foreign and domestic.

### **BRANCH BANKING GROUP**

- Overall management, administration and control of operations in the area offices and branches.
- Determines and plans activities for existing and future branch expansion in conformity with the objectives set by the Bank.
- Monitors performance of the branches against their targets.
- Responsible for the administrative control of branch operations; Provides prompt, reliable and accurate support services to the Branches.

### **Branch Support Department**

- Responsible for the preparation of strategic plans and budgets, periodic reporting and monitoring of branch activities, and operational analyses, as well as deposits and loans performance monitoring of branches.
- Responsible for the administrative control of branch operations and provides prompt, reliable and accurate support services to the Branches.
- It shall also be responsible for the review of all loan proposals endorsed by the branches prior to legal review and endorsement to approving authorities.
- It shall analyze, evaluate and validate financial and loan information to determine loan feasibility in accordance with the MOLO and RMO risk parameters.
- It shall prepare and plan the mix and volume of loan portfolio and formulate strategies to achieve them. It shall provide technical assistance and guidance to all areas/branches on loan policies and procedures and

documentation as well as account management.

### **AREA OFFICES**

- Overall management of banking activities of the branches within the area.

### **BRANCHES**

- Conduct general banking operations and maintains a complete set of books of accounts.

### **METRO LUZON AREA OFFICE**

1. MAIN BRANCH
2. SAN PABLO BRANCH
3. MALOLOS BRANCH
4. MABALACAT, PAMPANGA BRANCH
5. LIPA BRANCH

### **NORTH LUZON AREA OFFICE**

6. DAGUPAN BRANCH
7. ASINGAN BRANCH
8. BAGUIO BRANCH
9. SAN FERNANDO, LA UNION BRANCH
10. TARLAC BRANCH
11. TUGUEGARAO BRANCH

### **SOUTH LUZON AREA OFFICE**

12. NAGA BRANCH
  13. LAGASPI BRANCH
  14. SORSOGON BRANCH
  15. TIGAON BRANCH
- ### **VIZAYAS AREA OFFICE**
16. TACLOBAN BRANCH
  17. CEBU BRANCH
  18. HIMAMAYLAN BRANCH
  19. ILOILO BRANCH
  20. TAGBILARAN BRANCH
  21. BACOLOD BRANCH

### **MINDANAO AREA OFFICE**

22. CAGAYAN DE ORO BRANCH
23. MANOLO FORTICH BRANCH
24. DAVAO BRANCH
25. ZAMBOANGA BRANCH\*

(transferred to Dipolog)

### **Micro- Banking Office**

- Provides a wide range of transactional activities which reflect the particular needs of the unserved and underserved market particularly microfinance clients, overseas Filipinos and their beneficiaries. This MBO is authorized to provide services that are appropriately designed for the target market such as to accept micro-



deposits, disburse micro-loans and collect payments, sell, market and service micro-insurance products, receive and pay out authorized remittance transactions, act as cash in/out points for electronic money, receive utility payments, collect premiums and pay out benefits from social security institutions and other benefit systems including government conditional cash transfer programs, and purchase a limited level of foreign currency. The MBO shall only perform the activities for which it has specifically applied for and had been authorized to perform

### Micro- Financing Units

### EXTENSION OFFICES

## SELECTION PROCESS OF THE BOARD AND SENIOR MANAGEMENT

### Board of Directors

The Members of the Board of Directors of Postbank are duly appointed by the Office of the President of the Philippines. The Board of Directors shall be appointed by the President of the Philippines from a shortlist prepared by the Governance Commission for GOCCs (GCG).

### Senior Management

Senior Management are being selected using the qualification criteria set by the Bank's Human Resources Department. All hiring / appointment of Senior Management

are being approved by the Bank's Board of Directors

## BOARD OF DIRECTORS' OVERALL RESPONSIBILITY

As stipulated in the Bank's Manual on Regulations for Banks (MORB), per § X141.3 on Powers and Responsibilities of the Board of Directors, under item c, the following are the specific duties and responsibilities of the Board of Directors



- (1) *To approve and monitor the implementation of strategic objectives.*

Consistent with the institution's strategic objectives, business plans shall be established for the bank including its trust operations, and initiatives thereto shall be implemented with clearly defined responsibilities and accountabilities. These shall take into account the bank's long-term financial interests, its level of risk tolerance and its ability to manage risks effectively.

The board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed. The board shall likewise ensure that *the bank has beneficial influence on the economy* by continuously providing services and facilities which will be supportive of the national economy.

***(2) To approve and oversee the implementation of policies governing major areas of banking operations.***

The board shall approve policies on all major business activities, e.g., investments, loans, asset and liability management, trust, business planning and budgeting. The board shall accordingly define the bank's level of risk tolerance in respect of said activities. A mechanism to ensure compliance with said policies shall also be provided.

The board shall set out matters and authorities reserved to it for decision, which include, among others major capital expenditures, equity investments and divestments. The board shall also establish the limits of the discretionary powers of each officer, committee, sub-committee and such other groups for purposes of lending, investing or any other financial undertaking that exposes the bank to significant risks.

***(3) To approve and oversee the implementation of risk management policies.***

The board of directors 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 management of risks throughout the institution, including its trust operations.

The risk management policy shall include:

- (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.

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.

***(4) To oversee selection and performance of senior management.***

It is the primary responsibility of the board of directors to appoint competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the bank's strategic objectives, and conduct regular review of bank's policies with the management team.

- (a) The board of directors shall apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution's business, either current or planned, shall be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the institution. The board of directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession.
- (b) The board of directors shall regularly monitor the actions of senior management and ensure that these are consistent with the policies that it has approved. It shall put in place formal performance standards to be able to effectively assess the performance of senior management. The performance standards shall be

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consistent with the bank's strategic objectives and business plans, taking into account the bank's long-term financial interests.

- (c) The board of directors shall regularly meet with senior management to engage in discussions, question and critically review the reports and information provided by the latter. The board of directors shall set the frequency of meeting with senior management taking into account the size, complexity of operations and risk profile of the bank.
- (d) The board of directors shall regularly review policies, internal controls and self-assessment functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues. The board of directors shall set the frequency of review taking into account the size, complexity of operations and risk profile of the bank.

The board of directors shall ensure that senior management's expertise and knowledge shall remain relevant given the bank's strategic objectives, complexity of operations and risk profile.

**(5) To consistently conduct the affairs of the institution with a high degree of integrity.**

Since reputation is a very valuable asset, it is in the institution's best interest that in dealings with the public, it observes a high standard of integrity. The board of directors shall lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the senior management and other employees. The board of directors shall:

- (a) Articulate clear policies on the handling of any transaction with DOSRI and other related parties ensuring that there is effective

compliance with existing laws, rules and regulations at all times and no stakeholder is unduly disadvantaged. In this regard, the board of directors shall define "related party transaction", which is expected to cover a wider definition than DOSRI under existing regulations and a broader spectrum of transactions (i.e., not limited to credit exposures), such that relevant transactions that could pose material risk or potential abuse to the bank and its stakeholders are captured.

- (b) Require the bank's stockholders to confirm by majority vote, in the annual stockholders' meeting, the bank's significant transactions with its DOSRI and other related parties.
- (c) Articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the institution, or unethical conduct.
- (d) Articulate policies that will prevent the use of the facilities of the bank in furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.
- (e) Explicitly discourage the taking of excessive risks as defined by internal policies and establish an employees' compensation scheme effectively aligned with prudent risk taking. The compensation scheme shall be adjusted for all types of risk and sensitive to the time horizon of risk. Further, the grant of compensation in forms other than cash shall be consistent with the overall risk alignment of the bank. The board of directors shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended.

- (f) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the bank at all times. Further, the board of directors shall ensure that all transactions involving the pension fund are conducted at arm's length terms.
- (g) Allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit.

Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board itself; and

- (h) Articulate policies in communicating corporate values, codes of conduct and other standards in the bank as well as the means to confidentially report concerns or violations to an appropriate body.

***(6) To define appropriate governance policies and practices for the bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement.***

The board of directors, through policies and its own practices, shall establish and actively promote, communicate and recognize sound governance principles and practices to reflect a culture of strong governance in the bank as seen by both internal and external stakeholders.

- (a) The board of directors shall ensure that the bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the

lines of responsibility and accountability, especially between the roles of the chairman of the board of directors and chief executive officer/president.

- (b) The board of directors shall maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.
- (c) The board of directors shall structure itself in a way, including in terms of size, frequency of meetings and the use of committees, so as to promote efficiency, critical discussion of issues and thorough review of matters. It shall meet regularly to properly discharge its functions. It shall also ensure that independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.
- (d) The board shall conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound banking practice. The board shall appoint a compliance officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The compliance officer shall be vested with appropriate authority and provided with appropriate support and resources.
- (e) The board of directors shall establish a system of checks and balances which applies in the first instance to the board itself. Among the members of the board, an effective system of checks and balances must exist. The system

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shall also provide a mechanism for effective check and control by the board over the chief executive officer and key managers and by the latter over the line officers of the bank. Checks and balances in the board shall be enhanced by appointing a chairperson who is a non-executive, whenever possible.

- (f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, the individual directors, and the bank itself, which may be facilitated by the corporate governance committee or external facilitators. The composition of the board shall also be reviewed regularly with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation shall be adopted which shall include, but not limited to, the setting of benchmark and peer group analysis.
- (g) The board shall ensure that individual members of the board and the shareholders are accurately and timely informed. It shall provide all its members and to the shareholders a comprehensive and understandable assessment of the banks's performance, financial condition and risk exposures. All members of the board shall have reasonable access to any information about the institution at all times. It shall also provide appropriate information that flows internally and to the public.

**(7) *To constitute committees to increase efficiency and allow deeper focus in specific areas.***

The board of directors shall create committees, the number and nature of which would depend on the size of the bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank.

- (a) The board of directors shall approve, review and update at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures.
- (b) The board of directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the board of directors, shall appoint independent directors and nonexecutive members of the board to the greatest extent possible while ensuring that such mix will not impair the collective skills, experience, and effectiveness of the committees. Towards this end, 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 committees, without prior approval of the Monetary Board.
- (c) The board of directors shall ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
- (d) The board of directors shall constitute, at a minimum, the following committees:
- (i) *Audit committee.* The audit committee shall be composed of at least three (3) members of the board of directors, wherein two (2) of whom shall be independent

directors, including the chairperson, preferably with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the bank. To the greatest extent possible, the audit committee shall be composed of a sufficient number of independent and non-executive board members. Further, the chief executive officer, chief financial officer and/or treasurer, or officers holding equivalent positions, shall not be appointed as members of the audit committee.

The audit committee provides oversight over the institution's financial reporting policies, practices and control and internal and external audit functions. It shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. In cases of appointment or dismissal of external auditors, it is encouraged that the decision be made only by independent and non-executive audit committee members. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.

The audit committee shall review and approve the audit scope and frequency. It shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.

The audit committee shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.

The audit committee shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance

controls, and risk management, is conducted at least annually. The audit committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

(ii) *Risk oversight committee.* The risk oversight committee shall be responsible for the development and oversight of the risk management program for the bank and its trust unit. The committee shall be composed of at least three (3) members of the board of directors including at least one (1) independent director, and a chairperson who is a non-executive member. The members of the risk oversight committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall 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 that immediate corrective actions are taken whenever limits are breached. The bank's risk management unit and the chief risk officer shall communicate formally and informally to the risk oversight committee any material information relative to the discharge of its function. The risk oversight committee, shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

The core responsibilities of the risk oversight committee are to:

*a. Identify and evaluate exposures.* The committee shall assess the probability of each risk becoming reality and shall

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estimate its possible effect and cost. Priority areas of concern are those risks that are most likely to occur and are costly when they happen.

*b. Develop risk management strategies.* The risk oversight committee shall develop a written 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.

*c. Oversee the implementation of the risk management plan.* The risk oversight committee shall conduct regular discussion on the institution's current risk exposure based on regular management reports and assess how the concerned units or offices reduced these risks.

*d. Review and revise the plan as needed.* The committee shall 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 harm or loss. The committee shall 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.

*(iii) Corporate governance committee.*

The corporate governance committee shall assist the board of directors in fulfilling its corporate governance responsibilities. It shall review and evaluate the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the board of directors. The committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson.

The committee shall be responsible for ensuring the board's effectiveness and due observance of corporate governance

principles and guidelines. It shall oversee the periodic performance evaluation of the board and its committees and executive management; and shall also conduct an annual self-evaluation of its performance.

The corporate governance committee may coordinate with external facilitators in carrying out board assessment, within the frequency approved by the entire board. The corporate governance committee shall also decide whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the director's contribution and performance (e.g. competence, candor, attendance, preparedness and participation). Internal guidelines shall be adopted that address the competing time commitments that are faced when directors serve on multiple boards.

The committee shall make recommendations to the board regarding the continuing education of directors, assignment to board committees, succession plan for the board members and senior officers, and their remuneration commensurate with corporate and individual performance.

The corporate governance committee shall decide the manner by which the board's performance shall be evaluated and propose an objective performance criteria approved by the board. Such performance indicators shall address how the board has enhanced long term shareholders' value.

*Provided,* That in case of simple or non-complex banks, the board of directors may, at a minimum, constitute only the audit committee:

*Provided, further,* That the board shall discuss risk management and corporate governance matters in their board meetings, with the views of the independent directors duly noted and minuted.

## **BOARD OF DIRECTORS**

**As of 31 December 2016**



**Cesar N. Sarino**  
Acting Chairman



**Mario C. Lorenzo**  
Member/ CorSec



**Bituin V. Salcedo**  
Member/ Treasurer



**Mariano O. Aureus Jr.**  
Member



**Victor N. Alimurung**  
Member



**Pelagio S. Paguican**  
Member



**Fidel A. Bugayong**  
Member



**Jay B.T. Lacsamana**  
Member



**Dic G. Togonon**  
Member

## MEMBERS OF THE BOARD

As of 31 December 2016, the following are members of the Governing Board of the Philippine Postal Savings Bank, Inc.:

1. **Cesar N. Sarino\***, Acting Chairman
2. **Bituin V. Salcedo**, Member/ Treasurer
3. **Fidel A. Bugayong\***, Member
4. **Mariano O. Aureus Jr.**, Member
5. **Jay B.T. Lacsamana\***, Member
6. **Victor N. Alimurung**, Member
7. **Mario C. Lorenzo**, Member/ CorSec
8. **Pelagio S. Paguican**, Member
9. **Dic G. Togonon\***, Member

*\*resigned*

## BOARD MEETING ATTENDANCE

	Total No. of Meetin gs	Attenda nce	%
Dir. C.N. Sarino	24	24	100%
Dir. B.V. Salcedo	24	19	79%
Dir. F.A. Bugayong	24	19	79%
Dir. M.O. Aureus Jr.	24	22	92%
Dir. J.B.T. Lacsamana	24	22	92%
Dir. V.N. Alimurung	24	22	92%
Dir. M.C. Lorenzo	24	24	100%
Dir. P.S. Paguican	3	3	100%
Dir. D.G. Togonon	2	2	100%

For the calendar year 2016, the Board of Directors conducted at least 24 regular Board meetings, held every second (2<sup>nd</sup>) and fourth (4<sup>th</sup>) Tuesdays of every month.

In the conduct of Board meetings, the Board of Directors assures compliance with the Code of Corporate Governance.

The Board of Directors confirms full compliance with the Postbank's Code of Corporate Governance and that it has abide with the code principles of fairness, accountability, transparency and ethics.

Further, the Board of Directors has reviewed the vision and mission and strategies in the last financial year and has been continuously monitoring and overseeing the

implementation of the corporate strategies and the achievement of the Bank's target for the calendar year 2016.

## BOARD COMMITTEES MEMBERSHIP

The Board of Directors also had various Committees to increase their efficiency and allow deeper focus in specific areas. The Board Committees of the Bank and the membership of each committee are as follows:

### 1. Corporate Governance and Risk Management Committee

#### Membership

Chairperson	Dir. Victor N. Alimurung
Members	Dir. Cesar N. Sarino
	Dir. Bituin V. Salcedo
	Dir. Mariano O. Aureus Jr.
	Dir. Mario C. Lorenzo

### 2. Nominations and Compensation Committee

#### Membership

Chairperson	Dir. Victor N. Alimurung
Members	Dir. Cesar N. Sarino
	Dir. Bituin V. Salcedo
	Dir. Mariano O. Aureus Jr.
	Dir. Mario C. Lorenzo

### 3. Credit Committee

#### Membership

Chairperson	Dir. Bituin V. Salcedo
Members	Dir. Cesar N. Sarino
	Dir. Victor N. Alimurung
	Dir. Fidel A. Bugayong
	Dir. Dic G. Togonon

### 4. Audit and IT Oversight Committee

#### Membership

Chairperson	Dir. Mariano O. Aureus Jr.
Members	Dir. Jay B.T. Lacsamana
	Dir. Mario C. Lorenzo

## THE BOARD OF DIRECTORS PROFILE



### CESAR N. SARINO Director & Acting Chairman

Age	: 78
Nationality	: Filipino
Date of First Appointment	: 2011 July 26
Type of Directorship	: Executive director
Principal Stockholder represented	: Philippine Postal Corporation (PHLPost)
Number of years served as director	: 5 years
Number of direct and indirect shares held	: 1
Percentage of shares held to total outstanding shares of the bank	: Nil
Voting Status	: Voting
Other directorships of listed companies	: n.a.
Qualifications	: Ateneo de Manila University, with a degree of Bachelor in Science in Economics and completed his Masteral Degree in Business Administration at the New York University

#### Relevant Experience:

He holds various position in the Corporate Sector as President/Director, Genros Realty Corporation and President/Director, Nasar Realty Development Corporation. He also holds various positions in Non-Governmental Organizations, a Member of the Board and Treasurer, Alay sa Kawal Foundation, Inc., the President, EDSA People Power Foundation, Inc. and President, St. Jerome Parish Council (Alabang, Muntinlupa City) and Lay Minister

Mr. Sarino was formally with the Government Sector where he served in various positions most notable of which being the Secretary of the Department of Interior and Local Government and concurrent Chairman of the National Police Commission (Pres. Corazon C. Aquino Government) and the President and CEO, Government Service Insurance System (Pres. Fidel V. Ramos Government).

He also held several positions in the Corporate Sector, some of which as Chairman Board of Directors, Comsavings Bank and a Member of the Board of San Miguel Corporation, Philippine Long Distance Corporation, Urban Bank, Philippine National Construction Corporation, among others.

#### Trainings and / or Continuing programmes attended:

Orientation Seminar on Public Corporate Governance, The Institute of Corporate Directors, 21 October 2014

Corporate Governance and Risk Management Program, Ateneo – BAP Institute of Banking, 20-21 October 2011



## MARIO C. LORENZO

Director & Corporate Secretary

Age	: 75
Nationality	: Filipino
Date of First Appointment	: 13 October 2011
Type of Directorship	: Non-Executive director
Principal Stockholder represented	: Philippine Postal Corporation (PHLPost)
Number of years served as director	: 5 years
Number of direct and indirect shares held	: 1
Percentage of shares held to total outstanding shares of the bank	: Nil
Voting Status	: Voting
Other directorships of listed companies	: n.a.
Qualifications	: Bachelor of Laws Degree from the University of the Philippines

### Relevant Experience:

He served as a member of the Legal Committee of the Money Market Association of the Philippines, MCLE lecturer on banking and finance and resource person of the Commercial Laws Codification Committee headed by Justice Simeon Gopengco. Also, a member of Integrated Bar of the Philippines, Rizal-Makati Chapter, Philippine Bar Association and Rotary Club of Makati Central. He began his corporate career in Bancom Development Corp. in 1971. From 1981 to the present, he joined Union Bank of the Philippines, Security Bank Corporation, Security Diners International Corp., Banco del Oriente, Asiatrust Development Bank, PT&T, Republic Tel. Company, Capitol Wireless Corp. – serving in various capacities as legal counsel, Corporate Secretary and Director of said companies. He was also formerly a Partner at the law office of Picazo Buyco Tan Fider and Santos for 10 years. He has attended the Corporate Governance & Risk Management Program in 2009.

### Trainings and / or Continuing programmes attended:

Orientation Course on Corporate Governance for GOCCs, The Institute of Corporate Directors, 21 October 2014

Corporate Governance and Risk Management Program, De La Salle University Graduate School of Business, 26-27 March 2009



## **BITUIN V. SALCEDO** Director & Corporate Treasurer

Age	: 66
Nationality	: Filipino
Date of First Appointment	: 03 March 1998
Type of Directorship	: Non-Executive director
Principal Stockholder represented	: Philippine Postal Corporation (PHLPost)
Number of years served as director	: 19 years
Number of direct and indirect shares held	: 1
Percentage of shares held to total outstanding shares of the bank	: Nil
Voting Status	: Voting
Other directorships of listed companies	: n.a.
Qualifications	: Bachelor of Science in Social Work from the University of the Philippines in 1971 Passed the Board Examination in 1972

### **Relevant Experience:**

She is elected as Corporate Treasurer of the Bank since 2002. She is a member of the University of the Philippines Alumni Association and Philippine Association of Social Workers. She was a former Director of Council for Mendicants Rehabilitation, International Affairs-Rizal Lions Club International and Medical and Mission-Golden State Lions Club. She has attended several trainings and programs such as Personnel Management for Small Companies and Credit & Collection Management at Ateneo de Manila, Office Management Control at University of the Philippines, Management of Money Positions at Bancom Systems Control, Inc., Role of Professional Social Workers and Community Development Workers in Local Governance at DILG and Corporate Governance & Risk Management in 2002. She began her career as Director and President of Dumlao Valdez Realty & Development Corporation. Also, previously served as Director and President of Standford Ventures, Inc., Excellent Fire Extinguishers, Inc., and Finance Officer of Manila Economics and Cultural Office.

### **Trainings and / or Continuing programmes attended:**

Orientation Course on Corporate Governance for GOCCs, The Institute of Corporate Directors, 21 October 2014

BSP Corporate Governance and Risk Management Program, Development Finance Institute, 30-31 August 2002



## MARIANO O. AUREUS, JR. Director

Age	: 62
Nationality	: Filipino
Date of First Appointment	: 13 October 2011
Type of Directorship	: Non-Executive director
Principal Stockholder represented	: Philippine Postal Corporation (PHLPost)
Number of years served as director	: 6 years
Number of direct and indirect shares held	: 1
Percentage of shares held to total outstanding shares of the bank	: Nil
Voting Status	: Voting
Other directorships of listed companies	: n.a.
Qualifications	: Bachelor of Science in Business Administration in Economics, Magna Cum Laude from the Ateneo de Naga University in 1975

### Relevant Experience:

He served the Bicol River Basin Development Council and Philippine Chamber of Commerce and Industry before joining the Philippine National Bank. Director Aureus had a long career in banking that spans 35 years in PNB since 1976. He served as Inspector of branches, Bank Comptroller for sugar centrals, Branch Manager of several branches and Regional Head for Assets Management, Bicol Area, where he was subsequently awarded as PNB outstanding Manager in 1997 and 2005. He has attended the Advance Management Development Program, a PNB-AIM joint program for officers in 1991 and Corporate Governance & Risk Management Program in 2011. He was the President of Camarines Sur Bankers Association, Bankers Association of Camarines Norte, Rotary Club of Daet, Council of the Laity of the Diocese of Camarines Norte. He was also former director of Camarines Norte Water District. He also served as Director of Diocesan Socio-Pastoral Action Foundation and Founding Incorporator of the Holy Trinity Colege Seminary in Camarines Norte.

### Trainings and / or Continuing programmes attended:

Orientation Course on Corporate Governance for GOCCs, The Institute of Corporate Directors, 21 October 2014

Corporate Good Governance and Risk Management Program, Development Finance Institute Training Services, 24-25 November 2011



## VICTOR N. ALIMURUNG Director

Age	: 72
Nationality	: Filipino
Date of First Appointment	: 13 October 2011
Type of Directorship	: Non-Executive director
Principal Stockholder represented	: Philippine Postal Corporation (PHLPost)
Number of years served as director	: 6 years
Number of direct and indirect shares held	: 1
Percentage of shares held to total outstanding shares of the bank	: Nil
Voting Status	: Voting
Other directorships of listed companies	: n.a.
Qualifications	: Bachelor of Arts (AB '64) and Bachelor of Laws (LL.B. '68) from the Ateneo de Manila University  Master's in Law at Harvard Law School (LL.M. '70)

### Relevant Experience:

He has attended the Corporate Governance and Risk Management Program conducted by the Development Finance Institute Training Services in 2012. He presently holds another directorship position in different business affiliations with other companies such as Kerry Food Ingredients (Phil.), Inc., Kerry Food Ingredients (Cebu), Inc., Freight Management Worldwide Services and Daikin Air-Conditioning Phils., Inc. and a Corporate Secretary at PTT Philippines Corp. and PTT Philippines Trading. He is a faculty member of the Ateneo College of Law since 1975 and a Consultant at Siguion Reyna Law Office since April 2013

### Trainings and / or Continuing programmes attended:

Orientation Course on Corporate Governance for GOCCs, The Institute of Corporate Directors, 21 October 2014

Corporate Good Governance and Risk Management Program, Development Finance Institute Training Services, 29-30 March 2012



## PELAGUIO S. PAGUICAN Director

Age	: 62
Nationality	: Filipino
Date of First Appointment	: 22 November 2016
Type of Directorship	: Non-Executive director
Principal Stockholder represented	: Philippine Postal Corporation (PHLPost)
Number of years served as director	: 0.08 year
Number of direct and indirect shares held	: 1
Percentage of shares held to total outstanding shares of the bank	: Nil
Voting Status	: Voting
Other directorships of listed companies	: n.a.
Qualifications	: Bachelor of Laws from the University of Mindanao in 1979  AB Political Science from Rizal Memorial Colleges in 1975

### Relevant Experience:

Director Paguican had a long career on the judiciary services. Prior to his designation as an Executive Judge at the Regional Trial Court (RTC) Davao City for five (5) Years (2010 to 2015), he became Judge and Acting Presiding Judge of different RTC Branches in Davao City and Davao Oriental.

Director Paguican also attended various trainings and seminars which includes the Southeast Asia Regional Workshop of Judicial Training Institutions on Good Practices in Promoting Women Human Rights Complaint Justice Delivery in 2014, Multi-Sectoral Seminar/ Workshop on Agrarian Justice and Mid-Term Convention-Seminar of the Philippine Justice Association (PJA) in 2006, among others.

In December 1985, he was given a Certificate of Award for Exemplary Dedication and Distinguished Service in Protecting the Rights of Clients in Spite Threats to His Life and His Family, Harassment and Extortion Ordeals.

### Trainings and / or Continuing programmes attended:

N.A.



## FIDEL A. BUGAYONG

Director

Age	: 65
Nationality	: Filipino
Date of First Appointment	: October 13, 2011
Type of Directorship	: Non-Executive director
Principal Stockholder represented	: Philippine Postal Corporation (PHLPost)
Number of years served as director	: 5 years
Number of direct and indirect shares held	: 1
Percentage of shares held to total outstanding shares of the bank	: Nil
Voting Status	: Voting
Other directorships of listed companies	: n.a.
Qualifications	: BS Management and Accountancy, San Beda College  Masters in Business Administration at the Ateneo de Manila University

### Relevant Experience:

He has attended the Corporate Governance & Risk Management Program in 2011. For almost fifteen years he served as Executive Director of Keppel IVI Capital, Inc. Also, he was a Director of Keppel Philippine Holdings, Inc., Keppel Monte Bank, Emerging Markets Capital Holdings, Inc., SPL Capital Markets, Inc. and a Consultant of Department of Transportation and Communications (DOTC). Presently, he is the President of FB Partners, Inc. and South East Asian Food Exchange, Inc. and Chairman of Tech Advantage Corp since 2009.

### Trainings and / or Continuing programmes attended:

Orientation Seminar on Public Corporate Governance, Institute of Corporate Directors, 21 October 2014

Corporate Governance and Risk Management Course for Bank's Board of Directors, Development Finance Institute, 2002

Mergers and Acquisition, American Management Association, 1989

Various Credit and Investment Analysis, FINNEX



## JAY B.T. LACSAMANA

### Director

Age	: 51
Nationality	: Filipino
Date of First Appointment	: 13 October 2011
Type of Directorship	: Non-Executive director
Principal Stockholder represented	: Philippine Postal Corporation (PHLPost)
Number of years served as director	: 5 years
Number of direct and indirect shares held	: 1
Percentage of shares held to total outstanding shares of the bank	: Nil
Voting Status	: Voting
Other directorships of listed companies	: n.a.
Qualifications	: Bachelor of Arts in Social Sciences (Economics and Political Science) from the University of the Philippines and Master's degree in Public Policy at the National University in Singapore

#### Relevant Experience:

He joined Foundation for a Sustainable Society Inc. (FSSI) as Executive Director. Also, a Stockholder of New Rural Bank of San Leonardo (Nueva Ecija) Inc. since 2012; a Proprietor and Ex-officio of SJMM Printing Press and Pilipinas Ecofiber Corp. in 2011 and a Board of Trustees in the Management and Organization for Development and Empowerment since 2005 and Kanlungan Development Foundation since 2008. He spent eight years working as a Project Economist for a rural development project of the Philippine government funded by the Asian Development Bank. Prior to that, he served for three years as Board and Management of a rural bank that pioneered in microfinance, eight years as a chief economist/consultant of DAR-ADB Agrarian Reform, four years as a program coordinator and writer researcher at Friends of Filipino Migrant Workers Inc./Pinoy Overseas Chronicle and two years as Vice President for Corporate Planning at New Rural Bank of San Leonardo (Nueva Ecija), Inc. and served as a Director for six years with the same company. He joined National Economic and Development Authority (NEDA) as a Chief Economic Development Specialist for ten years and became a research assistant and a proofreader in 1985. He also rendered professional short-term engagements with UNFPA, UNDP, World Vision, ICOMP, World Bank and SGS. He has attended the Corporate Governance & Risk Management Program in 2005.

#### Trainings and / or Continuing programmes attended:

Orientation Seminar on Public Corporate Governance, Institute of Corporate Directors, 21 October 2014

Risk Management, BSP Consultant, 2010

Anti-Money Laundering Seminar, BSP and AMLA Commission, 2008

Corporate Governance, RBAP, 2006



## **DIC G. TOGONON**

Director

Age	: 70
Nationality	: Filipino
Date of First Appointment	: 28 November 2016
Type of Directorship	: Non-Executive director
Principal Stockholder represented	: Philippine Postal Corporation (PHLPost)
Number of years served as director	: 0.08 year
Number of direct and indirect shares held	: 1
Percentage of shares held to total outstanding shares of the bank	: Nil
Voting Status	: Voting
Other directorships of listed companies	: n.a.
Qualifications	: BS Agriculture, De La Salle Araneta University, 1967  Bachelor of Laws, Ateneo de Davao, 1972

### **Relevant Experience:**

He is the President and General Manager of Hadros Development Corporation since 1989.

He was a Senior Partner at Garcia, Inigo, De Guzman, Togonon Law office from 1977 to 1980. He was the Founder of Deeper Life Church and Deeper Life Academy and was also a Legal Counsel at Brokenshire Hospital and a Church Board Chairman of UCCP Paaralang Pag Asa from 1973 to 1975. He was also a former Farm Manager of JC Agro Industrial Corporation

### **Trainings and / or Continuing programmes attended:**

Corporate Director Management Program, Executive Development Academy, 2015

Corporate CEO Development Program, Executive Development Academy, 2014

## BOARD LEVEL COMMITTEES AND FUNCTIONS

### BOARD-LEVEL COMMITTEES, THEIR FUNCTIONS, THEIR CHARTER PROVISIONS ON MEETINGS AND NUMBER OF MEETINGS HELD IN 2016

To aid in complying with the principles of corporate governance, the Board created the following Committees constituted as follows:

#### Corporate Governance and Risk Management Committee

##### Membership

<b>Chairperson</b>	<b>Dir. Victor N. Alimurung</b>
Members	Dir. Cesar N. Sarino
	Dir. Bituin V. Salcedo
	Dir. Mariano O. Aureus Jr.
	Dir. Mario C. Lorenzo

##### Attendance

	Total No. of Meetings	Attendance	%
Dir. V.N. Alimurung	17	15	88%
Dir. C.N. Sarino	17	17	100%
Dir. B.V. Salcedo	17	13	76%
Dir. M.O. Aureus Jr.	17	16	94%
Dir. M.C. Lorenzo	17	16	94%

#### Nominations and Compensation Committee

##### Membership

<b>Chairperson</b>	<b>Dir. Victor N. Alimurung</b>
Members	Dir. Cesar N. Sarino
	Dir. Bituin V. Salcedo
	Dir. Mariano O. Aureus Jr.
	Dir. Mario C. Lorenzo

##### Attendance

	Total No. of Meetings	Attendance	%
Dir. V.N. Alimurung	4	4	100%
Dir. C.N. Sarino	4	4	100%
Dir. B.V. Salcedo	3	3	100%
Dir. M.O. Aureus Jr.	4	4	100%
Dir. M.C. Lorenzo	4	4	100%

#### Function of the Corporate Governance and Risk Management Committee and the Nominations and Compensation Committee

The Corporate Governance & Risk Management Committee is tasked with the general oversight of the enterprise / overall risk management of the Bank including managing the process of evaluating the board as whole as well as the individual members. The result of these evaluation processes are envisioned to:

1. Guide the committee in attracting and retaining directors with the qualifications and skills sets to oversee the overall management of the affairs of the bank;
2. Matching individual directors' qualifications and strengths in leading or becoming members of the different board committees;
3. It may also be used to find ideas to further improve the board's interactions and performance;
4. Assess the effectiveness of the Compliance system of the Bank; and
5. Assist the Board with the oversight function to:
  - a. Identify and evaluate risk exposures
  - b. Develop risk management strategies; and
  - c. Implement and periodically review the risk management plan

The Committee will carry out the following responsibilities:

1. Ensures that the Board adopts the appropriate decision-making processes and that there is a clear distinction between the decisions to be made by the Board and those made by the Bank's management
2. Ensures a sound system of procedural and financial delegations that promotes efficiency as well as control.
3. Ensures that the Board has a process which determines whether a director devotes necessary time and attention

to discharge his duties, acts judiciously, exercises independent judgement, has working legal knowledge affecting the Bank, observes effectiveness and adequacy of the Bank's control environment.

4. Reviews the following for updates/revisions:
  - Bank's mission and vision, strategic objectives, policies and procedures as being practiced by the Board of Directors and senior management.
  - Code of Conduct should have the appropriate and adequate policies and procedures to identify and deal with potential conflicts of interest.
5. Oversees director's training on corporate governance and its leading practices and principles by SEC-accredited institutional training provider.
6. Oversees the Bank's compliance with all relevant laws and regulations including codes of the best business practice.

**Credit Committee**

**Membership**

<b>Chairperson</b>	<b>Dir. Bituin V. Salcedo</b>
Members	Dir. Cesar N. Sarino
	Dir. Victor N. Alimurung
	Dir. Fidel A. Bugayong
	Dir. Dic G. Togonon

**Attendance**

	<b>Total No. of Meetings</b>	<b>Attendance</b>	<b>%</b>
Dir. B.V. Salcedo	24	20	83%
Dir. C.N. Sarino	24	24	100%
Dir. V.N. Alimurung	23	21	91%
Dir. F.A. Bugayong	24	19	79%
Dir. D.G. Togonon*	1	1	100%
Dir. M.C. Lorenzo**	1	1	100%
Dir. J.H. Sibayan***	22	19	86%

\*Nov-Dec 2016

\*\*Jan-Jun 2016

\*\*Jan-Oct 2016

**Function**

In line with the Bank's trusts of maintaining high quality, sound and profitable loan portfolio, the purpose and scope of the Committee are as follows:

1. To evaluate and approve loan accounts within its credit approval authority
2. To review credit evaluation and approval procedures and recommend changes if necessary to ensure continuous relevancy and effectiveness

The Committee will carry out the following responsibilities:

1. Establishing the Bank's overall credit risk capacity
2. Setting strategic targets, portfolio composition and limits at the corporate level
3. Reviewing and approving credit decision that may pose material risks to the Bank's business strategy or reputation
4. Reviewing the financial results of the Bank and determining action plans
5. Reviewing and approving all loans and credit transactions with the scope of its authority

**Audit and IT Oversight Committee**

**Membership**

<b>Chairperson</b>	<b>Dir. Mariano O. Aureus Jr.</b>
Members	Dir. Jay B.T. Lacsamana
	Dir. Mario C. Lorenzo

**Attendance**

	<b>Total No. of Meetings</b>	<b>Attendance</b>	<b>%</b>
Dir. M.O. Aureus Jr.	22	20	91%
Dir. J.T. Lacsamana	22	21	95%
Dir. M.C. Lorenzo	22	21	95%

**Function**

The purpose of the Committee is to represent and assist the Board of Directors

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in its general oversight of the Bank's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions.

Management is responsible for the preparation, presentation and integrity of the Bank's financial statements, accounting and financial reporting principles, and the Bank's internal controls and procedures designed to promote efficiency and effectiveness of operations and compliance with accounting standards and applicable laws and regulations.

The Commission on Audit (COA) as the independent Government Agency is responsible for performing an independent audit of the consolidated financial statements in accordance with Generally Accepted Auditing Standards.

This Committee serves a board level oversight role where it oversees the relationship with the independent external auditor, as set forth in this charter, receives information and provides advice, counsel and general direction, as it deems appropriate, to management and the auditors, taking into account the information it receives, discussions with the auditor, and the experience of the Committee's members in business, financial and accounting matters.

The Committee will carry out the following responsibilities:

#### **Financial Statements**

1. Reviews significant accounting and reporting issues and understand their impact on the financial statements. These issues include:
  - Complex or unusual transactions and highly judgmental areas.
  - Major issues regarding accounting principles and financial statement presentations, including any significant changes in the

Bank's selection or application of accounting principles.

- The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Bank.
2. Reviews and analyses reports prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
  3. Reviews with management and the independent auditors the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management.
  4. Discusses the annual audited financial statements with external auditors and monthly financial statements with management and the internal auditors, including the Bank's disclosures.
  5. Reviews disclosures made by the Chief Executive Officer (CEO) and The Treasurer/ Chief Financial Officer (CFO)/Controller about significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in Bank's internal controls.

#### **Internal Control**

1. Considers the effectiveness of the Bank's internal control system, including information technology security and control.
2. Understands the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations together with management's responses.

### **Internal Audit**

1. Reviews with management and the Internal Auditor the internal audit charter, plans, activities, staffing, and organizational structure of the internal audit function including IT audits.
2. Ensures there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Internal Auditor.
3. Reviews the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.
4. On a regular basis, meets separately in executive sessions with the Internal Auditor to discuss any matters that the Committee or internal audit believes should be discussed privately.

### **External Audit**

1. Reviews the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
2. Takes in account the opinions of management and internal audit

### **Information Technology**

1. Endorses to the Board prioritized, evaluated ISTM programs and projects as prepared by ISTM Group;
2. Reviews and evaluates ISTM programs and projects;
3. Reviews compliance to existing ISTM policies, procedures and standards in each of the life cycle stages of the information systems and its corresponding technology components;
4. Provides an open communications and coordination between ISTM Group and the Bank's functional units and groups to achieve the objectives set for the ISTM programs and projects;
5. Reviews adequacy and allocation of resources in terms of personnel,

technology hardware and equipment, operating systems and software; and networks, facilities and proposes solutions, improvements and enhancements of implementation and operations of ISTM programs and projects;

6. Provides directions/corrective actions to address identified and related ISTM deficiencies and gaps;
7. Reviews results and provides support and assistance in the assessment of the Bank's Business Continuity Plan concerned with ISTM facilities, personnel, equipment and relevant information assets;
8. Reviews and approves updates on the ISTM and operation manuals and elevates to the Board for approval; and
9. Reviews the sufficiency and appropriateness of the ISTM Strategic and Operational Plan at least annually.

### **Other Responsibilities**

1. Discusses with management the major policies of the Bank with respect to risk assessment and risk management.
2. Performs other activities related to this charter as requested by the Board of Directors.
3. Institutes and oversees special investigations as needed.
4. Reviews and assesses the adequacy of the Committee's charter annually, requests Board approval for proposed changes, and ensures appropriate disclosure as may be required by law or regulation.
5. Confirms annually that all responsibilities outlined in this charter have been carried out. Evaluates the Committee's and individual members' performance at least annually.
6. Reviews the reports of regulatory agencies such as PDIC and BSP.

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## SENIOR MANAGEMENT/ LIST OF OFFICERS

### PRESIDENT AND CEO



CESAR N. SARINO

### EXECUTIVE VICE-PRESIDENT



HIGINIO C. FABIAN

### GROUP HEADS



FVP VINCE N. CAMBA



VP MAXIMO V. ESTRADA



VP ROLAN D. CAMPOS II



VP ALONA B. LEE



VP PATRIA P. MADRIO



AVP ROGELIO L. MORZO

### OFFICE HEADS



VP MA. SALOME V. PANZO



VP GEMILIANO O. BUENO



AVP MA. CARINA S. CARANCHO

## AREA HEADS



VP MA. THERESA C. URBANO



VP GODOFREDO G. PASCUAL



VP ROSEMARIE P. VILLAMORA



VP MIRANDA G. VARON



VP ALFRED L. TAYO III

## DEPARTMENT HEADS



VP RODELIO S. ROMBLON



VP RONILO D. CONDE



AVP ALAN N. OROGO



AVP ALICE M. MORTELL



AVP MELODY C. DE LOS SANTOS

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Head, Information Systems & Technology Mgt. Group
Head, Legal Services Department
Head, Human Resource Department
Head, Microfinance Department
Head, Remedial and Asset Management Department
Chief Audit Executive/ Head, Internal Audit Office
Chief Compliance Officer/ Head, Compliance Office
Risk Officer/ Head, Risk Management Office

Observers

The Management Committee (ManCom) derives its powers/authority from Section 28.m of Postbank’s By-laws, to wit:

**COMMITTEES UNDER MANAGEMENT**

**MANAGEMENT LEVEL COMMITTEES, FUNCTIONS AND CHARTER PROVISIONS ON MEETINGS**



**Management Committee (MANCOM)**

**Membership**

Chairperson	President and CEO
Vice-Chairman	Executive Vice-President / next higher ranking officer
Members	Head, Branch Banking Group
	Head, Extended Banking Group
	Head, Treasury Group
	Head, Credit Management Group

*“The Board of Directors shall have the power **to delegate** to the Chairman of the Board, Vice Chairman, President, or to any officer or **to any committee any of its powers** whenever deemed necessary for the best interest of the Bank, subject to such conditions or limitations as the Board may impose, and to limitations provided for by the by-laws and/or regulations.”*

Therefore, the Committee shall be primarily accountable to the Board for the operations of the corporation. As part of its accountability, it is obliged to provide the

Board with complete and adequate information on the operations and affairs of the corporation in a timely manner.

The Model Code of Good Public Corporate Governance, disseminated by the Office of the Government Corporate Counsel (OGCC) thru its Memo Circular No.1, Series of 2008, elaborates further by stating in Section 4 that:

*“Management stands as the locus of decision-making for the day-to-day affairs of the Government Corporation (GC). It determines the GCs activities by putting its targets in concrete terms and by implementing basic strategies for achieving these targets. It also puts in place the infrastructure for the corporation’s success.”*

Hence, the Management Committee shall assist the Board in fulfilling its oversight responsibilities and help the Bank achieve its goals and purposes through effective governance and management.

1. Responsible for the execution/ implementation of the governance and strategic direction of the Bank including recommendations on changes in existing strategies or policies that may be formulated and duly endorsed by concerned business units and monitors them in accordance with the Bank’s objectives and approved overall Business Plan and Budget.
2. Responsible for all aspects of the operations of Bank delegating the day-to-day tasks to the concerned units thru the Office of the President and CEO (OPCEO), while ensuring the desired results/ output are delivered based on agreed standards and timeline;
3. Review the annual budget and spending policies. The committee shall review the monthly performance against the business plan and budget, reports on the Bank’s financial position and other matters or proposals that may materially affect

the Bank’s financial position and make recommendations for any changes / corrective actions to be taken.

4. Review/ discuss regular updates / reports/ activities/ issues of major business units in the bank.
5. Make recommendations to the Board of Directors with respect to the Bank’s governance systems and policies. The Committee discusses and recommends for approval of new and amendments to existing manuals and policies duly endorsed by concerned business units.
6. Discuss and recommend for approval on proposed agreements/contracts e.g. Memorandum of Agreement (MOAs), Memorandum of Understanding (MOUs), Service Level Agreement (SLAs), etc.) regarding prospective business tie-ups, joint undertakings, contracts of services, contracts of lease, and others.
7. Act on the recommendations of the business units beyond the level of the concerned Group Heads, or as may be stipulated in the Bank Codified Approving and Signing Authorities (CASA)
8. Discuss any significant or unusual occurrences / items that could materially affect the overall operations of the Bank.
9. Create task forces, technical working groups, project management/steering committees, and similar bodies that shall carry out special projects/functions, thereby assisting the ManCom in its policy-making, oversight, and executive functions.
10. Convene, as the need arises, and perform the tasks and act as the Risk Management Committee (Management Level), Change Management Committee and IT Oversight Committee.
11. Perform other functions as the Board may determine from time to time.

## Lending Committee (LENDCOM)

### Membership

Chairperson	President and CEO
Vice-Chairman	Executive Vice-President / next higher ranking officer
Members	Head, Branch Banking Group
	Head, Treasury Group
	Head, Corporate Banking Group
	Head, Legal Services Department
Observers	Head, Remedial and Asset Management Department
	Compliance Officer/ Head, Compliance Office
	Risk Officer/ Head, Risk Management Office

The Lending Committee (LendCom) derives its powers/authority from Section 28.m of Postbank's By-laws, to wit:



*“The Board of Directors shall have the power to delegate to the Chairman of the Board, Vice Chairman, President, or to any officer or to any committee any of its powers whenever deemed necessary for the best interest of the Bank, subject to such conditions or limitations as the Board may impose, and to limitations provided for by the by-laws and/or regulations.”*

The LendCom shall assist the Board in carrying its overall responsibility with respect to the review and approval of loans.

1. To review, evaluate, revise and approve/deny loan proposals within its authority and recommend/ endorsed to higher authorities loan proposals beyond its approving levels based on the Bank's approved Codified Approving and Signing Authorities (CASA)
2. To consider in its review and approval such information as it determines to be consistent with prudent lending practices, including financial statements of the borrower and any guarantors, the ability of the borrower to generate cash flow to support its debt obligations and other cash flow needs, the value and adequacy of the collateral for the loan, recent trends and statistics, and other relevant information.
3. To review and monitor the Bank's lending and credit-related activities and recommend changes in the existing lending policies and credit-related strategies to ensure relevance and effectiveness and compliance to regulatory policies
4. To call on concerned group/ area/ department/ branch heads, account officers, credit appraisers / investigators and other responsible employees in the conduct of its duties and responsibilities
5. To access data or record of loans accounts requiring actions from the Committee
6. Perform other functions as the Board may determine from time to time.

## Assets Management and Liabilities Committee (ALCO)

### Membership

Chairperson	President and CEO
Vice-Chairman	Head, Treasury Group
Members	Executive Vice-President / next higher ranking officer

	Head, Branch Banking Group
	Head, Corporate Banking Group
	Head, Administrative and Comptrollership Group
	Risk Officer/ Head, Risk Management Office
Observers	Compliance Officer/ Head, Compliance Office

The Asset and Liabilities Management Committee (ALCO) derives its powers/authority from Section 28.m of Postbank’s By-laws, to wit:



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*“The Board of Directors shall have the power to delegate to the Chairman of the Board, Vice Chairman, President, or to any officer or to any committee any of its powers whenever deemed necessary for the best interest of the Bank, subject to such conditions or limitations as the Board may impose, and to limitations provided for by the by-laws and/or regulations.”*

The ALCO has been established as one of the Committees under Management to assist the Board of Directors by assessing the adequacy and monitoring relating to (i) interest rate risk, (ii) market/investment risk, (iii) liquidity risk, (iv) credit risk, and (v) capital risk/ capital adequacy positions. ALCO shall also assure that Management is appropriately identifying, measuring, controlling, and monitoring the above-cited

items. It is also responsible for the Bank’s investment activities.

Hence, ALCO is primarily responsible in providing the framework to strategically manage the Bank’s overall assets and liabilities for long-term and short term basis.

1. Monitor the actions and results of management to assure that:
  - a. liquidity is being maintained within policy guidelines;
  - b. interest rate risk is appropriately measured, monitored and controlled;
  - c. trends of liquidity and interest rate risk are monitored, and corrective actions are being taken where problems are identified;
  - d. capital position of the Bank, and the capital management activities undertaken by the Bank ensures that capital levels are maintained in accordance with regulatory requirements and management directives;
  - e. investment activities such as purchase, sale, exchange and other disposition of the investments of the Bank, including review of management reports concerning current equity and debt security investment positions are monitored and ensured that they are in compliance with the policy and regulations
  - f. management of the Bank’s treasury functions, including its operations and funds management processes are monitored; and
  - g. appropriate standards or limits are established and followed
2. Oversee the management of the Bank’s assets and funding sources consistent with the Bank’s growth and profitability objectives while meeting policy on interest rate risk, liquidity, and capital adequacy
3. Perform other functions as the Board may determine from time to time.

## Anti-Money Laundering Committee (AML Committee)

### Membership

Chairperson	Compliance Officer
Vice-Chairman Members	Legal Services Department Head
	Risk Officer
	Security Officer
	Information Systems and Technology Management Group Head
	Corporate Management Services Department Head
	Customer Assistance Team Chairperson



The AML Committee shall be primarily responsible for establishing and maintaining a sound AML and combating the financing of terrorism (CFT) program for the Bank. It shall assist the Board of Directors with its oversight function and assist the Management in its responsibilities to implement AML-related circulars and issuances of the Bangko Sentral ng Pilipinas and the Anti-Money Laundering Council (AMLC), and the Revised Implementing Rules and Regulations of Republic Act (RA) No. 9160, otherwise known as the Anti-Money Laundering Act AMLA of 2001 (AMLA), as amended by RA Nos. 9194, 10167 and 10365

The Committee shall have the following duties and responsibilities:

1. Receive and deliberate on regulatory issuances relative to AML/CFT, and

formulate policies and procedures necessary to enhance internal controls against money laundering (ML) and terrorist financing (TF) activities;

2. Review sufficiency of logistic support to ensure complete capture in the AML reporting system of all covered transactions and suspicious transactions reportable to the AMLC within a 10-day deadline to avoid the Bank's possible exposure to sanctions or penalties;
3. Refer to the Office of the President, the Management Committee and/or the Board of Directors issues/non-compliance with the AMLA, the Money Laundering and Terrorist Financing Prevention Program (MLPP), and other relevant rules and regulations that may result to compliance or reputational risk, or loss on the part of the Bank;
4. Conduct regular review of the MLPP and revise or update it at least annually, or when necessary as a result of an examination or new regulatory issuances;
5. Recommend corrective and preventive measures including, but not limited to, investigation of and imposition of sanction/s to erring personnel or unit/s to address issues on ML and TF and improve compliance with the AMLA, the MLPP, and other related rules and regulations in accordance with the Bank's Code of Conduct, laws, and other rules and regulations; and
6. Invite internal and/or external resource person(s), such as business unit heads, if an issue so warrants.

## Bids and Awards Committee (BAC)

### Membership

Chairperson	VP Ma. Theresa C. Urbano
Vice-Chairman Members	Atty. Ronilo Conde
	VP Rodelio S. Romblon
	AVP Maria Carina S. Carancho
	AVP Rogelio L. Morzo

The following shall be the responsibilities of the BAC:

1. Recommend to the Head of the Procuring Entity the method of procurement of the goods, services, infrastructure projects included in the APP, i.e. whether to use public bidding or any of the alternative methods of procurement.
2. Creation of the TWG, if necessary, from a pool of technical, financial and/or legal experts to assist in the procurement process.
3. Undertake the advertisement and/or posting of the invitation to bid.
4. Conduct pre-procurement and pre-bid conferences.
5. Determine the eligibility of prospective bidders in accordance with the guidelines set forth in R.A. 9184 and its IRR-A.
6. Sole authority to receive and open bids.
7. Conduct the evaluation of bids with the assistance of the TWG.
8. Undertake post-qualification proceedings, with the assistance of the TWG.
9. Resolve motions for reconsideration filed by prospective bidders and other concerned parties with respect to the conduct of the bidding process.
10. Recommend award of contracts to the Head of the Procuring Entity or a duly authorized second-ranking official.
11. Recommend the imposition of sanctions in accordance with Rule XXIII of the IRR-A.
12. Prepare a procurement monitoring report that shall be approved and submitted by the Head of the Procuring Entity to the GPPB on a semestral basis or whenever required.
13. For each procurement transaction, accomplish a checklist showing its compliance with R.A. 9184, its IRR-A and this Manual. This will be submitted to the Head of the Procuring Entity and made a part of the transaction record.
14. Invite the Observers required by law to be present during all stages of the



- procurement process, in accordance with the guidelines stipulated in R.A. 9184, its IRR-A and this Manual.
15. Furnish the Observers, upon the latter's request, with the following documents:
    - Minutes of the proceedings of BAC meetings;
    - Abstract of bids;
    - Post-qualification summary report;
    - APP and related PPMP; and
    - Copies of "opened" proposals.
  16. Conduct due diligence review or verification of the qualifications of Observers.

In performing this due diligence review or verification of the qualifications of Observers, the BAC shall require the organization nominating the Observer to submit their Curriculum Vitae and proof of their technical expertise and procurement proficiency. The certifications / documents showing technical expertise and procurement proficiency should be issued by appropriate bodies and authenticated by the latter. Verification may be done by the BAC by inquiring with the bodies that issued the same.
  17. Give utmost priority to BAC assignments over all other duties and responsibilities, until the requirements for the procurement at hand are completed (Jury Duty).
  18. Perform such other related functions as may be necessary to the procurement process.

# Corporate Governance

## Policies and Programs

### Performance Assessment Program

#### GUIDELINES ON RATING OF EMPLOYEES

##### Performance Appraisal

##### I. Factors used in PPSB Performance Appraisal

Performance of all employees shall be evaluated based on Quantifiable Outputs and Qualitative Factors: The weightings applied are:

##### A. Quantifiable Outputs (75%)

Quantifiable Outputs shall be measured in terms of Key Performance Indicators (KPI's).

Targets for each of the Key Performance Indicators shall be discussed and agreed upon with the ratee at the beginning of the year and submitted to Group Heads for approval.

Approved KPI's and the agreed upon targets shall be submitted to the Human

Resource Department not later than January 31, each year.

##### B. Qualitative Factors (25%)

Twenty five per cent (25%) of the total Performance Appraisal points are allotted to the following Qualitative Performance Factors.

Qualitative Factors	Weight
B.1 Competencies/Behavioral (Team Orientation, Interpersonal Relationship and Initiative)	15%
B.2 Attendance, Punctuality and Compliance towards Bank's Policies. (To be filled up by HRD)	5%
B.3 Result of Internal Audit (Based on actual result of internal audit conducted on the unit)	5%

##### II. Equivalent Rating Summary

Total Rating Score	Equivalent Adjective Ratings
95% to 100%	Excellent – Consistently exceeded job expectations; demonstrated job mastery in Quality and Quantity of work

<b>90% to 94%</b>	Very Good – Consistently met all job expectations; above average in Quantity and Quality of work
<b>85% to 89%</b>	Good – Met all job expectations and objectives
<b>80% to 84%</b>	Satisfactory – Met most expectations and job requirements.
<b>Less than 80</b>	Poor – Most goals and objectives have not been met.

Part	Weighted Score
A	75%
B1	15%
B2	5%
B3	5%
<b>Total</b>	<b>100.00%</b>

**III. Performance Appraisal Periods**

There shall be two Performance Appraisal periods as follows:

- January to June to be submitted at end of July
- July to December to be submitted at end of January

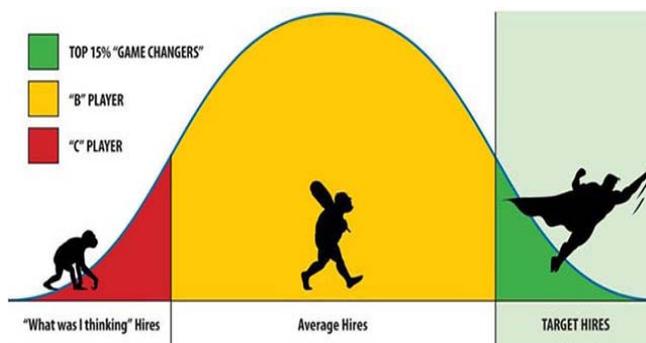
**SYSTEM FOR RANKING OFFICERS AND EMPLOYEES PER GCG MEMORANDUM CIRCULAR NO. 2017-01**

**DISTRIBUTION SYSTEM** - Distribution of PBB among qualified Officers and Employees of a GOCC who have complied with the eligibility rules as specified in GCG Memorandum Circular No. 2017-01 shall be in accordance with the following procedure:

**I. GROUPING OF PERSONNEL**

In determining the distribution of the PBB among qualified GOCC Officers and Employees, all personnel shall be ranked on

a percentile basis within their levels as determined by the GOCC Governing Board through Management in accordance with the following guidelines:



**(a) Senior Management:** This refers to the executive officers of the GOCC, and includes all heads of functional units, which are primarily involved in the development, evolution, and approval of long-term vision across a function or area of strategy, implement and maintain policies of the organization for area of responsibility. (e.g., Deputy Administrator, Sr. Deputy Administrator, Assistant General Manager, Executive Vice President, Sr. Vice President, Vice President, etc.)

The President/CEO, or whoever is the highest ranking executive officer, has the prerogative to avail of either the Performance-Based Incentive (PBI) under GCG MC No. 2017-02, or the PBB, but not both. In the event the CEO is included in the PBB application, he/she must meet the eligibility requirements for the PBI and shall be ranked separately on his/her own and shall be included in the forced ranking of Officers and Employees.

**(b) Middle Management:** This covers those whose work is primarily achieved through others, with direct accountability for setting direction and deploying resources. Responsible for people management, including performance evaluation and pay reviews and typically hire/fire decisions. Includes individual contributors who are recognized as

subject matter experts with in-depth technical knowledge, project management and significant influence skills in area of expertise (e.g., Head of Department or Service).

**(c) Professional and Supervisory:** This level comprises the personnel whose work is primarily achieved by an individual or through project teams. Requires the application of expertise in professional or technical area(s) to achieve results. Typically has a university degree or equivalent work experience that provides knowledge and exposure to fundamental theories, principles and concepts. Includes supervisors and junior management that may not have full management authority (e.g., Financial Analyst/Specialists, Accountant, HR Officer, etc.)

**(d) Clerical/General Staff:** This category includes all clerical, administrative and secretarial staff with little or no supervisory responsibility but who contribute independently to the organization. It also covers basic computing/data processing staff such as operators, customer service assistants and skilled craftsmen/technicians (e.g., Secretary, Clerk, Finance Processor, Administrative Assistant, Chauffeur, Utility Worker, Messenger).

## II. DISTRIBUTION FOR QUALIFIED OFFICERS AND EMPLOYEES

In each level provided for in Section I above, the ratings of Officers and Employees under the GOCC's SPMS or its equivalent shall be quantified to allow for ranking on a percentile basis for the purpose of distribution as follows:

2.1 Rates of PBB - The grant of the PBB shall be based on the performance of the individual Officers and Employees with the rate of incentive as a multiple of the individual's monthly basic salary (MBS) as of 31 December of the applicable year

based on the table below, but not lower than P5.000:

PERCENTILE	PBB AS PERCENTAGE OF MBS
Top: Maximum 10%	65.0%
Next: Maximum 25%	57.5%
Remaining: Minimum 65%	50.0%

*\*The percentile of the "Top" and "Next" levels are maximum figures with the discretion on the part of the Governing Board/Management to decrease the figures and distribute them to the "Remaining" level.*

Provided, that the total cost of the PBB shall not result in a net loss for the applicable year computed before subsidy and unrealized gains/losses, and after payment of all statutory obligations and liabilities.

## Orientation and Education Program

Employee orientation, as an integral part of the Bank's human resource development strategy that provides employees with the information necessary to begin or continue a successful career in the Bank.



For the new hires, the Human Resources Department conducts an Orientation Program to promote a broad understanding of Bank as financial institution. The process also include details about working in

Postbank, and the basic expectations of the Bank as an employer.

The new employees require essential information related to their work and their work environment, thus within a reasonable time following their appointment, they are being orientated to their duties, work environment and terms and conditions of employment.

The goal is to have a solid foundation for a successful, long-term working relationship between the Bank and the employee.

In terms of continuing education program for the Bank's employees, the Bank has been sponsoring various seminars and trainings for the whole year for all employees that are related to their duties and responsibilities.

Aside from the required seminars and trainings that are facilitated by various regulatory agencies, the Bank also has a Training Program for the continuing improvement of the employees.

In addition, the Bank also has an Educational Support Program for permanent employees who have served the bank for at least 5 years to avail of a 3 months study leave with pay (e.g. attending review for Board Exams, exploring masteral degree opportunities local and abroad, among others).

## **Retirement Policy**

The Postbank's Employees' Retirement Plan as approved by the Board of Directors has an objective to reward employees who have remained loyal to the Bank for substantial number of years, encourage them to stay longer and to provide financial security when they retire from service.

## **ELIGIBILITY**

1. An employee on a permanent status as of the effective date shall be automatically participant of the Plan
2. Employees not covered by the Plan as of the effective date or those hired by the Bank, subsequent to the effective date shall automatically become participants in the Plan on the day they became permanent employees of the Bank.



## **RETIREMENT DATES**

1. The normal retirement date of a participant shall be the first day of the month coinciding with or next following the participant's 60<sup>th</sup> birthday with at least five (5) years of service.
2. The optional retirement date of a participant may be before age 60 but after the attainment of at least age 50 completing at least ten (10) years of service.

The participant shall submit a retirement letter to the President and CEO thru his Group Head in writing of his intention to retire at least six (6) months prior to the intended retirement date

3. The compulsory retirement date of a participant shall be the first day of the month coinciding with or next following the participant's 65<sup>th</sup> birthday with at least five (5) years of service

4. A participant who will retire between the age of 60 and 65, regardless of length in service, shall submit a retirement letter to the President and CEO thru his Group Head, two (2) months prior to the intended retirement date.

## RETIREMENT AND OTHER BENEFITS

1. Every participant who retires on normal, optional or mandatory retirement date shall receive, upon his retirement, an amount equivalent to a certain percentage of his monthly basic salary which percentage shall depend on his length of service in accordance with the following schedule:

Length of Service	% of Monthly Basic Salary
5 years but less than 7 years	50%
7 years but less than 9 years	70%
9 years but less than 10 years	90%
10 years or more	100%

A fraction of a year longer than six (6) months shall be treated as one year. All leaves of absence without pay and all suspensions without pay shall be deducted from it.

2. A retiring participant who was hired as of August 2010 shall receive an amount equivalent to a certain percentage of his monthly basic salary which percentage shall depend on his length of service in accordance with the following schedule:

Length of Service	% of Monthly Basic Salary
More than 15 years to 20 years	125%
More than 20 years	150%

A fraction of a year longer than six (6) months shall be treated as one year. All leaves of absence without pay and all

suspensions without pay shall be deducted from it.

3. A retired employee shall be entitled to the computation of the accumulated unused vacation leave prior to June of the current year, and unused sick leave based on the latest salary
4. If a participant is terminated by the Bank due to authorized causes provided under Article 283 of the Labor Code, then he shall receive the full benefits due him under the Plan.

However, if the participant is terminated by the Bank due to just causes provided under Article 282 of the Labor Code, the benefits due him shall be forfeited

5. In the event of death of any participant while in the employ of the Bank, the designated beneficiary or in his absence, to the duly qualified representative to his estate, shall receive the amount of benefit granted under normal retirement.
6. Any participant whose employment is terminated because of total or permanent physical or mental disability or incapacity as certified by the Bank's designated physician, whether caused by injury or disease which prevents the employee from performing any work, physical or mental, shall be paid the same as in the normal retirement.

## MANNER OF PAYMENT

1. A participant may elect, at the time of his retirement, to have his benefits paid to him either in lump sum or in equal monthly instalments over a period of not less than one (1) year but not more than five (5) years. The actual period over which such installments will be paid shall be subject to approval by the Committee. Payment shall be made after securing / submission of clearance from his money and property accountabilities

2. If the benefits are to be paid in installments, the unpaid balance remaining in the retired participant's account shall continue to participate in the income of the fund, and the retired participant shall likewise be credited with his proportionate share of such net income. Should the retired participant die before completion of such installments, the entire unremitted balance shall immediately become due and payable to his beneficiaries or his estate as the case maybe
3. Neither the Bank nor the Plan shall, in any manner, be liable for or subject to the payment of any debt or liability of any member-employee and/or his beneficiaries except liabilities arising from legal debts of the member-employee and/or his beneficiaries except liabilities arising from legal debts of the member employee and other liabilities and penalties arising out of a criminal offense.

## **NOMINATION OF BENEFICIARIES**

1. An employee, upon eligibility to participate in the Plan, shall designate in writing, at least two (2) persons who will receive the amount which may be due to him as a participant of the Plan in case of his death or inability to receive in person any sum due from the fund. Designation of beneficiary/ies shall conform with the law on succession.
2. In the event of death, during the life of the participating employee, of any of his designated beneficiary, the employee shall designate, in writing, another person in the place of the deceased beneficiary.
3. In case the beneficiary is a minor or person under disability, such payments shall be made to the legal guardian. However, the beneficiary shall not be

entitled to any income on the amount of the accrued benefits during the period that the payment was deferred because of the absence of a legal representative

4. If at the time of death of the participating employee, no beneficiary has been designated and if there exist no valid designation or a beneficiary designated predeceased him, the amount due him shall be paid to his estate

## **AMENDMENT AND TERMINATION OF THE PLAN**

1. Although the Plan is expected to continue indefinitely, the Bank reserves the exclusive right to change, amend or terminate the Plan. However, no such action of the Bank shall operate to permit any part of the income of the fund to be used for, or to be diverted to, purposes other than the exclusive benefit of the participants or their beneficiaries except as to such amounts after the satisfaction of all fixed and contingent obligations under the Plan, as may remain in the fund at its termination.
2. Upon the termination of the Plan or upon the complete discontinuance of Bank contributions under the Plan, the rights of each participant to benefits accrued to the date of such termination or discontinuance, to the extent then funded, shall be vested in such participants and payable in accordance with the following priorities:

First, all retired participants who have not received the full amount of their retirement benefits at the date of termination shall be paid the outstanding balance of such retirement benefits, to the extent then funded; pro-rata if the fund is not sufficient

Any funds remaining, Fourth, all participants who have not received the full amount of their benefits accrued at

the date of termination or discontinuance determined using the same formula as in normal retirement shall be paid such unpaid accrued benefits, to the extent then funded, pro-rata if the fund is not sufficient.

Any funds remaining, Fifth, whatever balance is left after satisfying the above provisions shall revert to the Bank.

## BUREAU OF INTERNAL REVENUE REGULATIONS

The rules and regulations of this Plan have been designed to meet the requirements of the Bureau of Internal Revenue regulations as a tax-qualified Plan. The Bank reserves the right to amend any provision of the Plan which shall be effective retroactively or prospectively in order that it shall maintain tax qualified status in accordance with the present and future Bureau of Internal Revenue regulations.

## Succession Policy

### GUIDELINES

#### I. RATIONALE

Philippine Postal Savings Bank, Inc. recognizes the need for developing succession plans for its critical positions. This is to ensure that qualified individuals with the required knowledge, skills, experience and expertise and process abilities (referred as competencies) are always available to perform the critical position's responsibilities.

Critical positions include more than just executive and other senior management positions. Certain technical, operational, or business positions may be designated as critical positions because of the difficulty in finding or developing individuals with the competencies to successfully perform in these positions.

#### II. POLICY STATEMENT

It is the policy of the Bank to be prepared for any eventual change in leadership, key managerial and professional positions – planned or unplanned – to ensure business continuity, stability and accountability.

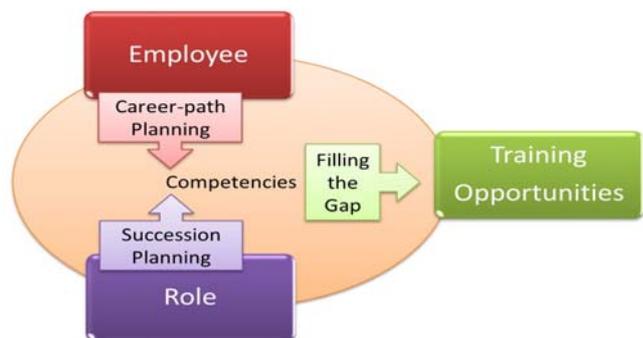
It is also the policy of the Bank to assess its leadership and managerial needs to ensure the selection of qualified and capable successors with the required competencies, and are fitted for Bank's mission, vision, values, principles and objectives.

To this end, starting 2012, the Bank shall embark on a revised and ungraded Succession Planning Program.

This Program is a deliberate and systematic effort by the Bank to ensure leadership and managerial continuity in key and critical positions, retain and develop intellectual and knowledge capital for the future, and encourage individual advancement.

#### III. GOAL OF THE PROGRAM

The Program shall build a development culture by assessing the existing talents in the Bank and determining their development needs and actions for future staffing needs and bench strength, in order to meet the Bank's strategic objectives.



#### IV. OBJECTIVES OF THE PROGRAM

1. To contribute to the implementation and achievement of the Bank's strategic business plans.
2. To provide increased opportunities for high potential employees.

3. To identify replacement needs as a means of targeting necessary training and employee development.
4. To increase the talent pool of promotable employees.
5. To improve employee's ability to respond to changing environmental demands.
6. To improve employee morale.
7. To cope with effects of separation programs.

#### **V. CRITICAL POSITIONS**

Critical positions are those with the following characteristics:

- Have responsibilities that are critical to business success.
- Exercise influence, control, or direction over the performance of many other individuals, workgroups, or units.
- Require levels of knowledge, skills, and process abilities that are not readily available or easily obtained in the labor market; nor easily developed by most individuals in their current assignments.
- May require specialized experiences and expertise as a component of preparation for the critical position.

#### **VI. PROCESS OF PROGRAM IMPLEMENTATION**

The Program will be implemented in accordance to the process and templates shown in Annex 1.

This entire process shall be observed in full confidentiality.

This process involves the following:

1. Identification of key and critical positions in the Bank:
  - Level I - Board of Directors
  - Level II- Group/Area Heads
  - Level III- Department/Branch Heads
  - Level IV- Critical professional and expert positions

2. Development of critical position profiles. The profile shall include a description of each position, the competencies required to perform its responsibilities, and critical success factors.

HR shall review and revise, as necessary, the existing set of competences for these critical positions to make these appropriate.

3. Identification of key talents, Current holders of key positions shall identify up to three (3) possible candidates (in a candidate pool) based on their performance, track record and potential for advancement from:
  - a. Within the Group or Department
  - b. Other Groups and Departments within the Bank
  - c. Prospective candidates may be sourced from outside the Bank if there are no available qualified candidates within the Bank.
4. Assessment of key talents and generation of development plans. A development plan is prepared for each candidate on how he/she will be developed over the next year.
5. Development monitoring and review. The progress made by candidates in developing the competencies required for critical positions is tracked by their respective managers and HR. The performance vis-à-vis the development plan is measured and evaluated.

On a quarterly basis, HRD shall monitor and report development progress and make necessary adjustments to the plan.

#### **VII. DEVELOPMENT TOOLBOX AND CANDIDATE GROOMING APPROACHES**

The following are some development toolbox and grooming approaches for key talents that will be employed:

1. On The Job:
  - Job Enrichment
  - Committee Assignments
  - Task Force Participation
  - Lead Person Responsibilities
  - Giving Presentation
  - Preparing Proposals
  - Special Projects
  - Installing A New System
  - Leading A New Program
  - Temporary Job Assignments
  - Full Job Change
2. Learning from Others
  - Working With a Mentor
  - Teaming with an Expert
  - 360-degree Feedback
  - Focused Interviews
3. Training and Education
  - Seminars and Conferences
  - Continuing Education
  - Cross Training
4. Grooming Approaches
  - Rotation
  - Training
  - Coaching and Mentoring
  - Functional Exposure
  - Relationship Building
  - Leadership Development
  - Ability to put together diverse teams
  - Motivating
  - Engaging and sharing plans for growth.

- of the officers identified in this Succession Plan.
- b. The person designated as OIC shall assume the full responsibility of the position and shall be authorized to sign reports and/or documents within the scope of authority of the said position in accordance with the Bank's approved codified Approving and Signing Authority (CASA).
  - c. The OIC shall receive a temporary allowance equivalent to the representation allowance only of the officer being temporarily replaced. The allowance shall be prorated if the OIC designation is less than one month.

The OIC may reimburse his business development expense subject to the Bank's policy.

### 3. Turn-Over during Temporary Absence

- a. Prior to scheduled absence, there should be proper turnover of duties and responsibilities to the designated OIC.
- b. In case of unscheduled absence, the next in line officer/supervisor in said until shall conduct an inventory of the duties and responsibilities of the officer on leave and turnover the same to the designated OIC.
- c. Upon assumption of the officer on temporary leave, the OIC shall turn over the duties and responsibilities to the concerned officer.

## VIII. PROCEDURE IN THE EVENT OF TEMPORARAY ABSENCE

1. Absence of the President and CEO  
The Board of Directors shall designate an OIC during the absence of the President and CEO duly recommend by the latter.
2. Absence of Officers below the President and CEO
  - a. The President and CEO or any authorized officer under the CASA shall designate as OIC of a department/branch/area/office/group vacated due to temporary absence

### 4. Time Frame for Making Interim Appointments

The Office of the President and CEO shall issue the temporary designation within day of knowledge prior to the absence of the officer. However, in case of unannounced leave, the designation shall be issued a day after knowledge of the absence of the officer.

In the event the officer on approved temporary leave cannot, for justifiable reasons, assume office after the lapse of his approved leave, the President and CEO shall issue an office order extending the designation of the OIC.

**IX. IMPLEMENTATION PLAN**

1. Orientation and Briefing of Board, Executives and Managers  
  
Lead: HR Manager  
Business Continuity Coordinator
2. Identification of key and critical positions  
Development of critical position profiles
  - Board, Officers, Group/Area Department/Branch Heads
  - Assistance and advise from HR Manager and BC Coordinator
3. Review and revision, as necessary, of existing set of competencies
  - HR Manager and BC Coordinator
4. Identification of key talents and candidate pooling
  - Board, Officers, Group/Area/Department/Branch Heads
  - Assistance and advise from HR Manager and BC Coordinator
5. Assessment of key talents and generation of development plans
  - Board, Officers, Group/Area/Department/Branch Heads
  - Assistance and advise from HR Manager and BC Coordinator
6. Submission of first Report on Succession Plan to the President and CEO
  - HR Manager and BC Coordinator

## Remuneration Policies

### REMUNERATION POLICY AND STRUCTURE FOR THE BOARD OF DIRECTORS

The remuneration and compensation of the Board of Directors follows the rules prescribed under Executive Order No. 24, “Prescribing Rules To Govern The Compensation Of Members Of The Board Of Directors/Trustees In Government-Owned Or Controlled Corporations Including Government Financial Institutions”, signed on 10 February 2011.



The maximum allowed compensation for the Board of Directors of Postbank was determined based on the Sections as stipulated on EO 24, viz:

**SECTION 6. GOCC Classification**

For the purpose of determining the maximum allowable compensation for members of the Board of Directors/Trustees pursuant to this Executive Order, GOCCs shall be classified by size based on the assets and revenues as follows:

Classification	Assets (P)	Revenues (P)
A	≥ 100 Billion	≥ 10 Billion
B	≥ 25 Billion and < 100 Billion	≥ 2.5 Billion and < 10 Billion
C	≥ 5 Billion and < 25 Billion	≥ 500 million and < 2.5 Billion

D	≥ 1 Billion and < 5 Billion	≥ 100 million and < 500 million
E	< 1 Billion	< 100 million

- a) Assets shall be based on the prior year's audited balance sheet;
- b) Revenues shall be based in the average of the prior three years' audited income statements;
- c) GOCCs must meet both asset and revenue criteria;
- d) Additional consideration may be given for such factors as financial performance, industry, and strategic positioning; and
- e) Changes in a GOCC's classification shall be reviewed, evaluated, and recommended by the Department of Finance, subject to the approval of the President.

**SECTION 7. Compensation of Members of the Board of Directors/Trustees**

The compensation of members of the Board of Directors/Trustees shall be in accordance with the following rules:

- a) Department Secretaries, Undersecretaries, Assistant Secretaries and other government officials, who are *Ex-Officio* Board Members, including their Authorized Alternates/Representatives, shall not be entitled to any additional compensation for their services as such;
- b) Appointive or Elective Board Members may receive compensation as set forth herein unless specifically prohibited by law or Charter;
- c) Compensation granted to *Ex-Officio* Board Members of subsidiaries or private corporations wherein a GOCC has investments shall accrue to the GOCC represented; and
- d) Compensation granted to Appointive or Elective Board Members representing a GOCC in a private corporation where the GOCC has investments shall not exceed the allowable compensation of the members of the Board of Directors/Trustees of the GOCC represented. Any excess shall accrue

and be remitted to the GOCC represented within fifteen (15) days.

**SECTION 8. Compensation Structure**

The compensation of members of the Board of Directors/Trustees shall have the following components:

- a) Compensation shall be in the form of *per diems* and subject to limits as provided for under Sections 9 and 10 hereof;
- b) Compensation in the form of Performance-Based Incentives may be allowed and shall be based on agreed upon metrics as provided under Section 11 hereof;
- c) Annual Retainer Fees and Stock Plans shall not be allowed; and
- d) Salaries, Allowance, Benefits, and other Bonuses shall not be allowed unless specifically authorized by law or Charter and approved by the President, *provided* that the total of foregoing compensation and *per diems* shall not exceed the limits stipulated under Sections 9 and 10 hereof.

**SECTION 9. Per Diems for Board Meetings**

The maximum *per diem* per Regular or Special Board meeting *actually attended* provided to members of the Board of Directors/Trustees shall be based on the size of the GOCC but not to exceed the maximum annual amounts as specified herein. Actual amounts provided shall consider the nature of the GOCC and fiscal realities, but any increases from the current rates of per diems being granted shall take effect only upon the approval by the President.

- a) The following schedule shall serve as limits:

Classification	Max Per Diem Per Meeting	Max Per year
A	40,000	960,000
B	20,000	480,000
C	15,000	360,000

D	10,000	240,000
E	5,000	120,000

- b) The Board chairperson may receive not more than 20% of the amount set for members of the Board of Directors/Trustees.

**SECTION 10. Per Diems for Committee Meetings**

The maximum *per diem* per Committee meeting *actually attended* provided to members of the Board of Directors/Trustees shall be based on the size of the GOCC and shall be at most sixty percent (60%) of the amount set per Board meeting but not to exceed the maximum annual amounts as specified herein. Actual amounts provided shall consider the nature of the GOCC and fiscal realities, but any increases from the current rates of per diems being granted shall take effect only upon approval by the President. The following schedule shall serve as limits:

Classification	Max Per Diem Per Meeting	Max Per Year
A	24,000	576,000
B	12,000	288,000
C	9,000	216,000
D	6,000	144,000
E	3,000	72,000

**SECTION 11. Performance-based Incentives**

The maximum amount of Performance-Based Incentives which may be paid to members of the Board of Directors/Trustees shall be based on the size of the GOCC but not to exceed a reasonable percentage of a Board Member's *actual* annual *per diems* received. Actual amounts provided shall be based on metrics agreed upon by the Board of Directors/Trustees and the supervising department, endorsed by the Department of Finance and the Department of Budget and Management, and subject to and upon approval of the President.

- a) A rating system shall be used to assess GOCC performance using metrics that

clearly identify when targets have been met or exceeded; and

- b) Performance-based incentives shall only be paid if a GOCC has complied with its statutory obligations.

**SECTION 12. Reimbursable Expenses**

All necessary expenses of members of the Board of Directors/Trustees to attend Board and other meetings and discharge their official duties shall be paid directly by the GOCC. However, when *due only* to the exigency of the service and subject to the submission of receipts, it is necessary for the members of the Board of Directors/Trustees to advance the same, they may be reimbursed but only for the following items incurred in the performance of official functions subject to budgeting, accounting, and auditing rules and regulation:

- a) Transportation expenses in going to and from the place of meetings;
- b) Travel expenses during official travel;
- c) Communication expenses; and
- d) Meals during business meetings.

On the other hand, the Performance Based Incentive (PBI) for the Board of Directors was based on the Memorandum Circular issued by GCG on Interim Performance-Based Incentive (PBI) System for Appointive Directors/Trustees of GOCCs Covered by R.A. No. 10149.

**REMUNERATION POLICY AND STRUCTURE FOR THE SENIOR MANAGEMENT**

Compensation structure for the Senior Management follows the structure as approved by the Bank's Board of Directors.

Cash benefits and allowances pursuant to the Board approved benefits and allowances.

The grant of representation and transportation allowances is based on the DBM National Budget Circular No. 548 dated 15 May 2013 re: Amended Rules and

Regulations on the Grant of Representation and Transportation Allowances

The Performance Based-Bonus (PBB) is based in the Interim PBB guidelines based on the Memorandum Circular issued by the GCG

## Related Party Transactions Policies and Procedures

### OBJECTIVE

1. To update the existing policy on Related Party Transactions (RPT)
2. To establish clear policies in handling transactions between the Philippine Postal Savings Bank, Inc. (Postbank) and Related Parties for uniform implementation of all the users

### SCOPE

This policy shall apply to all related party transactions of the Postbank

### REFERENCE

Manual on Regulations for Banks (MORB)  
Postbank's Manual on Lending Operations (MOLO)

### DEFINITION

**Related parties** shall cover the bank's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts direct/indirect control over or that exerts direct/indirect control over the bank; the bank's directors; officers; stockholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest

of Postbank, hence, is identified as a related party.

**Close family members** are persons related to the bank's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother-/sister-in-law, grandparent-in-law, and grandchild-in-law of the Postbank's DOS.

**Corresponding persons** in affiliated companies are the DOS of the affiliated companies and their close family members.

**Control** of an enterprise exists when there is:

- a. Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
- b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- c. Power to appoint or remove the majority of the members of the Board of Directors or equivalent governing body; or
- d. Power to cast the majority votes at



- e. Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of 20 percent or more of a class of voting shares of a company.

Should Postbank choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, Postbank shall submit a written commitment that: (1) shares owned or held are exclusively for investment purposes; (2) the Postbank-stockholder will not serve on the Board of Directors and will not nominate any candidate to serve on the board or otherwise seek board representation; (3) the Postbank-stockholder will have only limited contacts with bank management that are customary for interested shareholders; (4) the Postbank-stockholder will engage only in normal and customary transactions with the enterprise; and (5) the Postbank will not pledge the shares acquired to secure a loan with any institution.

**Related party transactions (RPTs)** are transactions or dealings with related parties of the Postbank, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

- a. On-and off-balance sheet credit exposures and claims and write-offs;
- b. Investments and/or subscriptions for debt/equity issuances;
- c. Consulting, professional, agency and other service arrangements /contracts;
- d. Purchases and sales of assets, including transfer of technology and intangible items (e.g, research and development, trademarks and license agreements)
- e. Construction arrangements/contracts;
- f. Lease arrangements/contracts;
- g. Trading and derivative transactions;
- h. Borrowings, commitments, fund transfers and guarantees;
- i. Sale, purchase or supply of any goods or materials; and
- j. Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

## GUIDELINES

### I. RATIONALE

1. To promote transparency/ disclosure
2. Promotes objective judgment in decision making process
3. Propriety of use of public funds
4. Protects minority shareholders

### II. POLICY STATEMENT

All transactions with Related Parties shall be done at “arm’s length” or conducted in accordance with the principles of transparency and fairness, taking into account the best interest of the bank.

Dealings with Related Parties should be in the regular course of business and upon terms not less favorable to the Bank than those offered to others.

### III. BOARD DUTIES AND RESPONSIBILITIES

The Board of Directors shall have the overall responsibility in ensuring that the transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. The Board of Directors shall carry out the following duties and responsibilities and shall comply with the succeeding updates thereon:

1. To observe good governance and approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. A group-wide RPT policy shall be adopted, encompassing all entities within the banking group, taking into account their size, structure, risk profile and complexity of operations.

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2. To approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the Board of Directors.

All final decisions of the board on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board and stockholders' meetings.

3. To delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of Directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
4. To establish an effective system to:
  - Determine, identify and monitor related parties and RPTs;
  - Continuously review and evaluate existing relationships between and among businesses and counterparties; and
  - Identify, measure, monitor and control risks arising from RPTs.

The system shall be able to define related parties' extent of relationship with Postbank; assess situations in which a non-related party (with whom

a bank has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/ supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the BSP and audit functions for review. Any changes in the policies and procedures shall be approved by the Board of Directors.

5. To maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process, whenever applicable. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether Postbank is well-insulated from any going concern issue of related parties
6. To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board should ensure that senior management addresses legitimate issues on RPT that are raised. The board should take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.

#### **IV. ROLES OF SENIOR MANAGEMENT AND SELF-ASSESSMENT FUNCTIONS**

The Senior Management (thru the Management Committee) shall implement appropriate controls to effectively manage and monitor RPTs on a per transaction and

aggregate bases. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with this policy and BSP's regulations.

The Internal Audit Office shall conduct a periodic formal review of the effectiveness of the Postbank's system and internal controls governing RPTs to assess consistency with the Board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

The Compliance Office shall ensure that Postbank complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall aid in the review of the Postbank's transactions and identify any potential RPT that would require review by the Board or RPT Committee. It shall ensure that the RPT policy is kept updated and is properly implemented throughout Postbank.

#### **V. IDENTIFYING RELATED PARTIES**

For purpose of this policy, Related Parties shall refer to:

- a. Directors, Officers, Stockholders and Related Interests (DOSRI) as defined in the Manual of Regulations for Banks (MORB)
- b. Subsidiaries and/or Affiliates of PPSB, viz:

Subsidiary shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.

Affiliate shall refer to an entity linked directly or indirectly to a bank by means of:

1. Ownership, control or power to vote, of ten (10%) or more of the

outstanding voting stock of the entity, or vice versa:

2. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;
  3. Common stockholders owning ten percent (10%) or more of the outstanding voting stock of each financial intermediary and the entity;
  4. Management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity, or vice-versa; and,
  5. Permanent proxy or voting trusts in favor of the bank constituting ten percent (10%) or more of the outstanding voting stock of the entity, or vice-versa.
- c. Supervisory and Rank and File Employees and their Related Interests as provided under Section X326.1 Item e. of the MORB.
  - d. An entity in which a director or officer of the Bank assumes the role of directors, partner, officer or guarantor
  - e. A person or class of persons who has present or past interest or relationship with the Bank, who can reasonably be expected to have influence on the decision of the Bank regarding a transaction
  - f. Relatives, peers and associates of DOSRI and employees of the Bank who has control or has significant influence over the Bank's DOSRI and employees

#### **VI. LIST OF RELATED PARTY TRANSACTIONS (RPTS):**

The following are considered as Related Party Transactions (RPTs) when performed with a Related Party:

- Investments
- Purchases or sales of goods
- Purchases or sales of property and other assets
- Rendering or receiving of services
- Agency arrangements
- Leasing arrangements
- Transfer of technology
- Fund transfers
- Guarantees
- Credit exposures of the financial institution with its DOSRI and bank's subsidiaries and affiliates
- Settlement of liabilities on behalf of the entity or by the entity on behalf of that related party

#### **VII. CHECKING OF RELATED PARTIES**

The transacting or processing department/unit of the Bank shall check whether a person / entity is a related party. The counterparty to any of the above transactions as well as the name of its directors, officers and stockholders shall be checked against the "Central Inventory of Related Parties" of the Bank to determine if it is a related party.

The persons and entities in each Related Party Group shall be determined in advance and a central inventory of all related parties of the Bank shall be set up, maintained and updated from time to time to reflect subsequent changes in relationships such as a non-related party becoming a related party, promotions, resignations or retirements of bank officers by the Human Resources Department.

#### **VIII. REPORTING OF RPTs TO MANAGEMENT**

The initiating unit to a transaction as well as the concerned group, department or office who shall implement the same shall be responsible in reporting Related Party Transactions to the Management and to the regulatory agency, where applicable, and should perform the necessary due diligence to ascertain whether a transaction is considered an RPT or not.

#### **IX. GENERAL CRITERIA FOR APPROVING RELATED PARTY TRANSACTIONS**

In determining whether to approve, ratify, disapprove or reject a Related Party Transaction, the Management Committee and the Board of Directors shall take into account, among other factors it deems appropriate, whether the Related Party Transaction is entered into on terms no less favorable to the Bank than terms generally available to an unaffiliated third-party under the same or similar circumstances; the results of an appraisal, if any; whether there was a bidding process and the results thereof; review of the valuation methodology used and alternative approaches to valuation of the transaction; and the extent of the Related Person's interest in the transaction.

The Board of Directors will review the following information when assessing a Related Party Transaction:

- The terms of such transaction;
- The Related Person's interest in the transaction;
- The purpose and timing of the transaction;
- Whether the Bank is a party to the transaction, and if not, the nature of the Bank's participation in the transaction;
- If the transaction involves the sale of an asset, a description of the asset, including date acquired and costs basis;
- Information concerning potential counterparties in the transaction;
- Description of any provisions or limitations imposed as a result of entering into the proposed transaction;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction and
- Any other relevant information regarding the transaction.

Independent judgment is critical in approving related party transactions and to ensure that agreed transactions are in the interests of the Bank and all shareholders. To avoid bias, only non-conflicted directors shall discuss and decide on a related party transaction.

#### **X. RPT AT ARM'S LENGTH TERMS**

To ensure that related party transactions are conducted at arm's length basis and in the ordinary course of business, the terms and conditions of the transaction should not be more favorable than similar transactions with non-related parties. The terms and conditions shall include those relating to term, interest rates, fees, collaterals, contract/selling price and other relevant information that will allow a clear determination that no preferential treatment was given to a related party. The price discovery mechanisms used and the results obtained should also be disclosed in the proposal

- All transactions with related parties shall undergo the normal/regular transaction processing and approval process. Interest on loans and other credit accommodations and deposits/deposit substitutes shall be consistent with the pricing mechanism/standard of the Bank based on posted rates from the Treasury Group. Other economic terms of RPTs (e.g., price, commissions, fees, tenor, and collateral requirement) shall likewise be based on existing policy of the Bank. All RPTs with deviations shall be subject to evaluation and endorsement by the Management Committee to the Board of Directors for approval, regardless of amount, and shall be supported by written justifications.

- Price Discovery Mechanism

→ List of Bank's ROPAs shall be posted at the conspicuous place

in the Head Office and branches. The list should bear information on the indicative/minimum selling price of the property.

→ Selection of: (i) service providers for courier/janitorial/security, construction/maintenance, information technology and other services allowed to be outsourced under existing regulations, and (ii) suppliers of office and other administrative supplies, furniture, fixtures and equipment (including for transport) and systems applications, shall be subject to applicable procurement/bidding process in accordance with existing policy of the Bank.

#### **XI. CONFLICT OF INTEREST**

If an actual or potential conflict of interest arises on the part of a director, officer or employee, he is mandated to fully and immediately disclose the same and should not participate in the decision-making process relating to the transaction.

Any member of the Board of Directors who has an interest in the transaction under evaluation shall not participate therein and shall abstain from voting on the approval of the transaction.

#### **XII. MATERIALITY THRESHOLDS AND EXCLUDED TRANSACTIONS**

The threshold amount prescribed for each type of transaction with each related party or group of related parties shall be classified based on the monetary value involved to determine the appropriate action from the Management and/or the Board of Directors, and / or reporting to BSP.

#### Transactions with Related Parties:

Classification	Transaction Amount	Action
De Minimis	₱10,000 and below	Does not require disclosure or approval from the Board
Disclosure	₱10,001 up to ₱100,000	To be reported to the Board of Directors for notation
Approval	₱100,001 and above	To be submitted to the Board of Directors for approval

#### Excluded Transactions:

The following transactions shall not be deemed related party transactions and shall therefore be excluded from materiality thresholds requirement and reporting to the BSP:

- Transactions concerning deposit operations;
- Regular trade transactions involving purchases and sales of debt securities traded in an active market; and
- Those granted under BSP-approved fringe benefits program
- Executive Officer and Director compensation arrangements

#### **XIII. INTERNAL LIMITS FOR INDIVIDUAL AND AGGREGATE EXPOSURES**

To ensure that RPTs are within prudent levels, Postbank shall abide with the limits for individual and aggregate exposures on RPTs as defined in BSP Circular 914 series of 2016, amending sections on the MORB, and to the succeeding updates, thereon.

#### **XIV. WHISTLEBLOWING MECHANISMS**

The Bank has an existing whistleblowing mechanism consistent with the corporate values and codes of conduct set by the Board of Directors. The policy encourages employees to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable transactions that would include RPT. The current whistle blowing policy includes guidance on how and by whom legitimate material concerns should be reported, investigated and addressed by an objective independent internal body.

#### **XV. RESTITUTION OF LOSSES AND OTHER REMEDIES FOR ABUSIVE RPTS**

Whenever applicable, the Bank shall discontinue a related party transaction if found abusive and demand restitution of losses or opportunity costs it incurred from such related party transaction.

#### **XVI. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY**

In the event the Bank becomes aware of a Related Party Transaction with a Related Person that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Management Committee (ManCom). The ManCom shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, including the items listed in the preceding section, and shall evaluate all options available to the Bank, including ratification, revision or termination of the Related Party Transaction. The ManCom shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Board of Directors and to the regulatory agency, where applicable, and shall propose to the Board of Directors any such action it deems appropriate.

## **XVII. DISCLOSURE AND REGULATORY REPORTING**

Postbank shall follow the disclosure and regulatory reporting procedure on RPTs as stipulated in BSP Circular 895 series of 2015 and Section 4. Section X146.3 of the MORB to be administered by the Accounting and Comptrollership Group and shall comply with the succeeding updates thereon, as follows:

- Postbank shall adequately disclose in their Annual Report, if applicable, the overarching policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts of interest; nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material RPTs.
- In addition to the required reports on DOSRI and transactions with subsidiaries and affiliates under existing regulations, Postbank shall submit a report on material exposures to related parties, based on the bank's internal definition within twenty (20) calendar days after the end of the reference quarter starting with the quarter ending 31 March 2016.
- Transactions concerning deposit operations, regular trade transactions involving purchases and sales of debt securities traded in an active market, are excluded from the reporting requirement to BSP, provided that credit lines with amounts falling within the definition of "material transactions" shall be reported to BSP upon approval of the line.
- Lease contracts and other similar contracts with recurring payment transactions shall only be reported once, upon approval of said transaction by the Board of Directors. In case the parties involved in the transactions are both supervised by the BSP, only the lessor, in case of a lease contract, or the

party engaging/requesting for the services of the other bank, in case of other contracts, shall submit the report.

## **XVIII. PRE-APPROVED RELATED PARTY TRANSACTIONS**

Unless required by the BOD, Related Party Transactions approved before the issuance of this revised policy shall not require review or ratification from the BOD.

## **XIX. REPEALING CLAUSE**

All relevant provisions of previous issuances inconsistent hereto shall be deemed superseded.

## **XX. EFFECTIVITY**

This policy shall take effect upon approval of the Board of Directors.

## **ADMINISTRATION**

1. Branch Banking Group
2. Corporate Banking Group
3. Credit Management Group
4. Administrative and Comptrollership Group
5. Human Resources Department
6. Risk Management Office
7. Legal Services Department
8. Compliance Office
9. Internal Audit Office

## **Self-Assessment Function**

As stated in the Sec. X185 (2008 - X163) of the MORB, the Internal Control Framework stipulated that:

*"Internal control is a process designated and effected by the board of directors, senior management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and*

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*management information; and compliance with applicable laws, regulations, supervisory requirements, and the organization's policies and procedures.*

*Banks shall have in place adequate and effective internal control framework for the conduct of their business taking into account their size, risk profile and complexity of operations. The internal control framework shall embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies."*

## **INTERNAL AUDIT OFFICE**

The Internal Audit Office (IAO) is headed by a Chief Audit Executive with a rank of Vice-President. Under the approved plantilla and structure, IAO has 3 Senior Auditors, 3 Junior Auditors, 1 IT Junior Auditor, 5 Audit Assistants and 1 Administrative Staff

The scope of the internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the Bank's governance, risk management process, information security systems of internal control structures and the quality of performance in carrying out the assigned responsibilities to achieve the organization's goal, objectives and strategies. It covers among others all processes, systems, units and activities including outsourced services that fall within the overall scope of the internal audit function.

The Internal Audit is an independent, objective assurance and consulting functions established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of an organization, which helps management and the Board of Directors in protecting the Bank and its reputation and integrity. The internal audit function shall both assess and complement operational management, risk management, compliance and other control

functions. In this respect, the internal audit is being conducted in frequencies commensurate with the assessed levels of risk in specific banking areas.



It functionally reports to the Audit & Compliance Committee, and administratively reports to the President and CEO

## **COMPLIANCE OFFICE**

The Compliance Office (CO) is headed by a Compliance Officer with a rank of Vice-President assisted by 1 Asst. Compliance Officer, 1 AMLA Officer, 1 Compliance Assistant and 1 AMLA Assistant.

The structure of the internal audit and compliance functions including its role, mandate/authority, and reporting process

The review process adopted by the Board to ensure effectiveness and adequacy of the internal control system

The function of Compliance Office as defined in the regulation is "is an independent function which identifies, assesses, monitors and reports on the bank's compliance risk which is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a Bank may suffer as a result of its failure to comply with banking laws, rules, regulations, codes of conduct and standards of good practice.

It functionally reports to the Audit & Compliance Committee, and administratively reports to the President and CEO

The compliance function responsibilities as defined are as follows:

- The Board of Directors for the overall oversight
- The Senior Management and Business Units on the effective management of compliance in their respective areas, compliance being a line driven function
- Compliance Function in identifying, monitoring and reporting on the bank's compliance risk.

Its scope includes Regulatory Issuances by:

- BSP (BSP MORB, Circulars, Circular Letters, Memoranda, RAs as applicable)
- AMLC (RA 9160/9194 as amended)
- SEC (Corporate Governance SEC Memo No. 6)
- PDIC (RIs)

## **INTERNAL CONTROL SYSTEM REVIEW PROCESS**

The review process adopted by the Board to ensure effectiveness and adequacy of the internal control system is consistent with the principles as stipulated in the Manual on Regulations for Banks (MORB) as follows:

Consistent with the principles provided under Subsecs. X141.3 and X142.3, the board of directors and senior management shall be responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

- a. The board of directors shall be ultimately responsible for ensuring that senior management establishes and maintains an adequate, effective and

efficient internal control framework commensurate with the size, risk profile and complexity of operations of the bank. The board of directors shall also ensure that the internal audit function has an appropriate stature and authority within the bank and is provided with adequate resources to enable it to effectively carry out its assignments with objectivity.

Further, the board of directors shall, on a periodic basis:

- (1) conduct discussions with management on the effectiveness of the internal control system;
- (2) review evaluations made by the audit committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors;
- (3) ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and
- (4) review and approve the remuneration of the head and personnel of the internal audit function. Said remuneration shall be in accordance with the bank's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity.

- b. The audit committee shall be responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

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The audit committee shall oversee the internal audit function and shall be responsible for:

- (1) monitoring and reviewing the effectiveness of the internal audit function;
- (2) approving the internal audit plan, scope and budget;
- (3) reviewing the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of the internal audit function and reporting significant matters to the board of directors;
- (4) ensuring that the internal audit function maintains an open communication with senior management, the audit committee, external auditors, and the supervisory authority;
- (5) reviewing discoveries of fraud and violations of laws and regulations as raised by the internal audit function;
- (6) reporting to the board of directors the annual performance appraisal of the head of the internal audit function;
- (7) recommending for approval of the board of directors the annual remuneration of the head of the internal audit function and key internal auditors;
- (8) appointing, reappointing or removing the head of the internal audit function and key internal auditors; and
- (9) selecting and overseeing the performance of the internal audit service provider.

In particular, the audit committee shall be responsible for:

- (1) ensuring independence of the internal audit service provider;
- (2) reporting to the board of directors on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit;
- (3) ensuring that the internal audit service provider comply with sound internal auditing standards such as the Institute of Internal Auditors' International Standard for the Professional Practice of Internal

Auditing and other supplemental standards issued by regulatory authorities/ government agencies, as well as with relevant code of ethics;

- (4) ensuring that the audit plan is aligned with the overall plan strategy and budget of the bank and is based on robust risk assessment; and
- (5) ensuring that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

- c. Senior management shall be responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness of internal controls on a periodic basis. Management shall develop a process that identifies, measures, monitors and controls risks that are inherent to the operations of the bank; maintain an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensure that delegated responsibilities are effectively carried out; implement internal control policies and ensure that activities are conducted by qualified personnel with the necessary experience and competence. Management shall ensure that bank personnel undertake continuing professional development and that there is an appropriate balance in the skills and resources of the front office, back office, and control functions. Moreover, Management shall promptly inform the internal audit function of the significant changes in the bank's risk management systems, policies and processes.
  - d. All personnel need to understand their roles and responsibilities in the internal control process. They should be fully accountable in carrying out their responsibilities effectively and they should communicate to the appropriate
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level of management any problem in operations, action or behavior that is inconsistent with documented internal control processes and code of ethics.

## **Dividend Policy**

### **REVISED IMPLEMENTING RULES AND REGULATIONS TO REPUBLIC ACT NO. 7656, "AN ACT REQUIRING GOVERNMENT-OWNED OR-CONTROLLED CORPORATIONS TO DECLARE DIVIDENDS UNDER CERTAIN CONDITIONS GUIDELINES ON RATING OF EMPLOYEES**



Pursuant to Section 7 of the republic Act No. 7656, which was approved on 09 November 1993, the following rules and regulations are hereby promulgated to implement the provisions of the said Act:

#### **SECTION 1. Title**

These rules shall be known as the "Revised Implementing Rules and Regulations to the Republic Act No. 7656 (2016)," hereinafter referred to as the Rules.

#### **SECTION 2. Declaration of Policy.**

It shall be the policy of the State that in order for the National Government to realize additional revenues, Government-Owned or -Controlled Corporations (GOCCs), without impairing their viability and the purposes for which they have been established, shall

share a substantial amount of their net earnings to the National Government.

These Rules are also intended to promote fiscal discipline among GOCCs and improve National Government cash management.

#### **SECTION 3. Definition of Terms.**

As used in this Rules, the term:

- (a) "Act" refers to Republic Act No. 7656
- (b) "Acquired Asset Corporation" refers to a corporation: (1) which is under private ownership, the voting or outstanding shares of which were: (i) conveyed to the Government or to a government agency, instrumentality or corporation in satisfaction of debts whether by foreclosure or otherwise, or (ii) duly acquired by the Government through final judgment in a sequestration proceeding; or (2) which is a subsidiary of a government corporation organized exclusively to own and manage, or lease, or operate specific physical assets acquired by a government financial institution in satisfaction of debts incurred therewith, and which in any case by law or by enunciated policy is required to be disposed of to private ownership within a specified period of time.
- (c) "BIR", "BSP", "BTr", "COA", "DBM", "DOF", "DOJ," and "GCG" refer to the Bureau of Internal Revenue (BIR), the Bangko Sentral ng Pilipinas, the Bureau of the Treasury, the Commission on Audit, the Department of Budget and Management, the Department of Finance, the Department of Justice, and the Governance Commission for GOCCs, respectively.
- (d) "Dividends" refer to the distribution of profits to stockholders of a corporation in proportion to the number of shares held by the respective owners which may take the form of cash, shares of the company's own stock or property, as allowed by law. All dividends declared and remitted to the National Treasury shall be non-refundable

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- (e) “Dividend Year” refers to the calendar year during which Net Earnings were realized by a GOCC
  - (f) “Financial Institutions Owned or Controlled by the National Government” refer to financial institutions or corporations in which the National Government directly or indirectly owns majority of the capital stock, and which are either: (1) registered with or directly supervised by the BSP; or are (2) collecting or transacting funds or contributions from the public and thereafter, placing them in financial instruments or assets such as deposits, loans, bonds and equity including, but not limited to, the Government Service Insurance System and the Social Security System
  - (g) “Government-owned or Controlled Corporations (GOCCs)” refer to corporations organized as a stock or non-stock corporation vested with functions relating to public needs, whether governmental or proprietary in nature, and owned by the Government directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations, to the extent of at least fifty one percent (51%) of its capital stock. This term shall also include financial institutions, owned or controlled by the National Government, but shall exclude acquired asset corporations, as defined in the next paragraphs, state universities, and colleges.
  - (h) “National Government” refers to the entire machinery of the central government, as distinguished from the different forms of local governments.
  - (i) “Net earnings” refers to the income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29 of the National Internal Revenue Code, as amended, and income tax and other taxes paid thereon, but in no case shall any reserve for whatever purpose be allowed as a deduction from Net Earnings. For the avoidance of doubt, “Net Earnings” shall include:
    - i. Income subject to income tax, as provided in the Annual Income Tax Return, net of tax;
    - ii. Income subject to final tax, as provided in the Annual Income Tax Return Schedule on Supplemental Information, net of tax;
    - iii. Income exempt from tax, as provided in the Annual Income Tax Return Schedule on Gross Income/ Receipts Exempt from Income tax, net of tax;

Provided, further that:

    1. Net Earnings shall not include program subsidies and subsidies granted to settle tax obligations for prior years if included in the income statement as revenues, and actual disbursements of program subsidies treated as expenses. In the case of operating subsidies, these shall be considered part of revenues;
    2. Net Earnings shall not include dividend income remitted directly to the National Government in compliance with Section 5(h) of these Rules; and
    3. This definition of Net Earnings shall likewise apply to GOCCs that are exempted from income tax
  - (j) “Parent GOCC” refers to a GOCC receiving Dividends from another GOCC;
  - (k) “Property” refers to land and buildings, securities issued by the National Government, other marketable securities and other assets to be approved by the Secretary of Finance
  - (l) “Reserves” refer to the portion of Retained Earnings of a GOCC that has been appropriated by its governing board for a specific purpose, i.e. legal or contractual obligation, plant expansion and other contingencies

#### **SECTION 4. Coverage**

These Rules shall apply to all GOCCs, as defined herein, including GOCCs whose profit distribution is provided by their respective charters or by special law: Provided, however, That the GOCCs created

or organized by law to administer real or personal properties held in trust for the use and benefit of its members shall not be covered by the Rules such as, but not limited to:

- a. Government Service Insurance System;
- b. Social Security System;
- c. Home Development Mutual Fund;
- d. Employee Compensation Commission
- e. Overseas Workers Welfare Administration; and
- f. Philippine Health Insurance Corporation

Provided, finally, that Net Earnings derived from operations funded by monies not held in a fiduciary or trustee capacity by the above cited GOCCs shall be subjected to declaration of dividends as herein required.

#### **Section 5. Dividends**

- a. Except as otherwise provided herein, all GOCCs covered by these Rules, regardless of shareholdings, shall annually declare and remit Dividends directly to the National Government in the name of the Treasurer of the Philippines in accordance with following guidelines:
  - i. On or before 15 May of each year at least fifty percent (50%) of their Net Earnings, as Cash, Stock and/or Property Dividends to the national Government.
  - ii. In the interest of promoting fiscal discipline and improving revenue generation efforts, the Department of Finance, upon consultation with the DBM and the GCG, may request the GOCC to remit above the 50% minimum dividend rate in the event that the GOCC has excess cash or windfall earnings; provided that the viability and purposes for which the GOCC has been established are not impaired.
- b. As a general rule, GOCCs shall declare and remit Dividends in the form of cash in order to raise additional revenues for the National Government. GOCCs intending to remit Dividends in any form other than cash, i.e stock or property, may do so only upon express written

permission from the Secretary of Finance. Request for remittance of Dividends in stock or property shall be submitted to the DOF on or before 15 May of the year following the relevant Dividend Year, with the Documentary requirements under Annex A.

- c. In the case of a stock corporation, GOCCs may declare stock dividend to the National Government provided that their authorized capitalization has not been fully paid-up. Stock dividends shall be valued at par or the book value of shares based on the latest audited financial statements of the GOCCs.
- d. GOCCs owned directly by the National Government and whose shares of stock are not listed in the stock exchange shall, upon obtaining written DOF approval for its declaration of stock dividends, request from DBM the corresponding appropriation following its declaration.
- e. GOCCs may declare property dividends, upon obtaining DOF approval for its declaration. GOCC shall execute and deliver in the name of the Treasurer of the Philippines the necessary deed of transfer or other instrument of conveyance in favour of the National Government. GOCCs shall bear the cost of transferring title, notarial expenses and other fees and charges incidental to the transfer. Land and buildings declared as property dividends, as accepted and approved by the DOF, shall include assets which are owned, but not used in operation, by a GOCC. That property shall be free from all liens and encumbrances and not be subject to any adverse judicial process at the time of conveyance. The value of the property shall be based on its fair market value as approved by the COA.
- f. GOCCs remitting stock dividend:
  - i. That are owned directly by the National Government and whose shares are listed in the Stock Exchange, shall deliver to the BTr the stock certificates with the aggregate value corresponding to the dividend due on or before May 15 following the dividend year.

- ii. That are owned directly by the National Government and whose shares are not listed shall earmark the same and shall deliver to the BTr the stock certificates upon issuance by the DBM of the appropriate document and based on the provisions of the General Appropriations Act.
  - iii. That are corporations with majority of its outstanding capital stock owned or controlled, directly or indirectly, through one or more intermediates, by one or multiple GOCCs, shall deliver to the parent GOCCs the stock dividend which in the latter shall, in turn, assign the same to the BTr within ten (10) working days upon receipt of the stock certificates.
- g. Corporations with majority of its outstanding capital stock owned or controlled, directly or indirectly, through one or more intermediates, by one or multiple GOCCs, shall remit directly to the national Government all Dividends declared in compliance with Section 5(a) of these Rules.
- h. For the purpose of computing Net Earnings, Parent GOCCs shall not include as part of its Net earnings any dividend income received from shareholdings in other GOCCs which were remitted directly to the National Government by the latter as part of its own Dividend remittance.
- i. Government-owned banks shall declare and remit Dividends to the National Government pursuant to the applicable banking laws and regulations.
- j. There Rules shall apply to Dividends which shall become due and payable after the effectivity of these rules, in accordance with the provisions hereof.

#### **SECTION 6. Schedule of Remittance**

- a. All GOCCs shall declare and remit to the BTr in the name of the Treasurer of the Philippines the Dividend due for a given

Dividend year subject to Section 5(a) of these rules.

- b. Simultaneous with the payment of the Dividends to the BTr, the GOCC shall send the DOF: schedule showing the computation of Dividends due (copy furnish BTr); (ii) copy of its Annual Income Tax Return, duly received by the BIR or authorized agent banks, for the relevant Dividend Year; (iii) Financial statements for the relevant Dividend Year duly received and subsidies granted to settle tax obligations for prior year/s treated as revenues and actual disbursements of program subsidies treated as expenses. The schedules should be signed by the GOCC's chief executive officer.
- c. The DOF-corporate affairs group shall determine and review the correctness of computation of dividend remittance.
- d. Any amendment to the Annual Income Tax Return resulting to an increase in the Net Earnings shall warrant a reevaluation by the DOF\_CAG. Within ten working days of filing the amended tax return, the GOCC shall submit to the DOF documents enumerated in Section 6(b) of these Rules related to such amendment and remit to the BTr any deficiency
- e. In the case of GOCCs which may encounter cash flow difficulties in remitting cash dividends to the National Government, the GOCC may request an alternative schedule of payment through the submission of a request to the Secretary of Finance on or before 15 May of the year following the relevant Dividend Year, with the documentary requirements under Annex A.

#### **Section 7. Flexible Clause**

- a. In the interest of the national economy and general welfare, and in consideration of the viability of the GOCCs and the purpose for which they were established, the percentage of annual Net Earnings that shall be declared by the GOCC may be adjusted by the President of the Philippines below the minimum 50% Dividend rate,

- upon recommendation by the Secretary of Finance.
- b. Subject to Section 7 (a) of these Rules, a downward adjustment in Dividend rate below the minimum 50% may be allowed for the following cases: (i) where there is a presence of a deficit as reflected in the GOCCs latest Statement of Equity, (ii) where the GOCCs viability or the purpose for which the GOCC has been established will be impaired by the payment of the required Dividends; (iii) where the declaration and remittance of Dividends at the minimum Dividend rate will result in a breach in minimum regulatory requirements (e.g. capital level and ratios as may be required by BSP); and. (iv) for GOCCS governed by Batas Pambansa Blg. 68 (or the Corporation code of the Philippines), where declaration and remittance of Dividends at the minimum Dividend rate exceeds the unrestricted retained earnings of the GOCC.
  - c. Request for downward adjustment should be submitted to the Secretary of Finance on or before 15 May of the year following the relevant dividend year. The requesting GOCC shall submit the documentary requirements as provided under Annex A of these Rules.

### **Section 8. Recording of Dividends**

The BTr shall record the dividends as follows:

- a. Cash dividends – recorded as income to the General fund;
- b. Property dividends – recorded as assets upon receipts of the property and, upon sale of the property, income to the General fund;
- c. Stock Dividends:
  - (i) For GOCCs whose shares are listed in the stock exchange, dividends shall be recorded as asset upon receipt of the shares of stock and excess over the par value of shares, and, upon sale of the shares of stock, income to General Fund;
  - (ii) For GOCCs directly owned by the National Government whose shares are not listed in the stock exchange, dividends shall be recorded as income to the General Fund and as additional paid-up equity by the National Government to the GOCC upon issuance by the DBM of the appropriate document based on the provisions of the General Appropriations Act,
  - (iii) For corporations, where at least a majority of the outstanding capital stock is owned or controlled, directly or indirectly, through one or more intermediates, by one or multiple GOCCs, and whose shares are not listed in the stock exchange, dividends shall be recorded as income to the General Fund.

### **Section 9. Responsibility, sanctions and Penalty**

- a. The governing board of the GOCC shall be responsible for approving the declaration of the proper amount of Dividends in accordance with these Rules. The chief executive and finance officers of the GOCC shall be responsible for the remittance of said Dividends. In case of failure of a GOCC to declare and remit the proper amount of dividends in accordance with these Rules: (i) the DOF shall recommend to the GCG or DBM the deferral or disapproval of the performance incentive of the GOCC's appointive Directors (including the chief executive) without the prejudice to other sanctions as may be imposed by the GCG or DBM; and, (ii) the BTr, in coordination with DOF, shall assess the GOCC penalty charge for late payment equivalent to the prevailing 364-day regular Treasury bill rate plus five percent (5%) on the Dividend rate.
- b. In case of failure to remit the declared Stock or Property Dividends on the specified deadline, the GOCC shall immediately remit in the form of cash

the equivalent cash value of stock or Property Dividend within ten (1) days upon the advice of the BTr, Additional sanctions and penalty charges, as provided for in Section 9 (a) of these Rules, Shall be imposed on the GOCC should it further fail to remit the equivalent cash dividend within this period.

#### **Section 10. Criminal Liabilities of Directors and Officers**

In addition to the penalties which may be imposed on the GOCC pursuant to Section 9 of these Rules, any member of the governing board, the chief executive officer and the chief financial officer of a GOCC who violates any provision of these Rules, in addition to other sanctions provided by law, upon conviction thereof, shall suffer the penalty of a fine of not less than Ten thousand pesos (10,000) but not more than (3) years, or both at the discretion of the court, without prejudice to other appropriate sanctions provided by law.

#### **Section 11. Resolution of Related Issues**

All cases for clarifications not covered by the provision of these Rules shall be referred to the DOF for resolutions.

#### **SECTION 12. Repeating Clause**

Implementing Rules and Regulations Issued on 28 January 1994 and 5 August 1998 are hereby amended, revised, modified or repealed accordingly.

#### **Section 13. Separability Clause**

If for any reason or reasons any part of the provisions of these Rules shall be deemed unconstitutional or invalid, other parts or provisions which are not affected thereby shall continue to be in force and effect.

#### **Section 14. Effectivity**

These Rules shall be applicable immediately upon publication

## **Corporate Social Responsibility (CSR)**

### **POSTBANK'S CORPORATE SOCIAL RESPONSIBILITY PROGRAM**

Embarking on Corporate Social Responsibility (CSR) initiatives complements Postbank's business efforts to address the needs of the communities we serve, apart from imbuing our employees with civic spirit, a sense of purposive volunteerism, and solidarity and engagement with these communities. It is a powerful means for demonstrating to our stakeholders and the general public Postbank's values of mission, service and compassion.



Our Corporate Social Responsibility Program revolves around themes aligned with our corporate goals and mission: Governance, and Growth and Relevance, as well as other advocacies such as children and youth development and disaster mitigation and risk reduction.

### **GOVERNANCE**

Through its CSR Program, Postbank contributes to the government's program on the pervasive campaign against graft and corruption, via awareness-raising events and communication campaigns aimed at highlighting the values of honesty, integrity, simple lifestyle and loyalty to the Republic and the Filipino people, as exemplified by the President of the Philippines. It will

promote citizen participation, particularly among the children and youth.

In our own way, Postbank shall contribute in this endeavor thru serving our stakeholders/ customers with excellence and integrity.

Postbank ensures full disclosure of the features, terms and conditions of our products and services and it complies with the rules of concerned regulatory bodies.

We also thrive for continuous improvement in our services through adoption of the Quality Management Systems (QMS) in our banking processes and adherence to the requirements of the Anti-Red Tape Act (ARTA) to improve efficiency in the delivery of our services to the public.

## **GROWTH AND RELEVANCE**

As Postbank expands into the rural areas with the opening of its Micro Banking Offices, it stands to position itself more strategically to support the Government's inclusive growth program. Its CSR Program will complement the Bank's business activities for the poor by partnering with NGOs and other community-based organizations in assisting communities build their capacities for fighting poverty through savings mobilization, education, training, employment promotion, entrepreneurship development, and resiliency-building in light of climate change.

## **CHILDREN AND YOUTH DEVELOPMENT**

The long-term campaign to eradicate poverty hinges on the country's ability to provide children and youth access to quality education.

In the areas where we operate, Postbank, in partnership with NGOs and other civic organizations, will organize such activities as feeding program, provision of books and school supplies, organizing of sports

activities, book reading and tutoring to improve the school performance of children and youth. As well, we help develop among the children and youth a sense of citizen participation and the competence to go about it. Lastly, we instill among the youth the value of savings and enable them to have greater access to economic opportunities through skills training and entrepreneurship development.

## **CHILDREN AND YOUTH DEVELOPMENT**

The other track that we pursue in our CSR program addresses one of the biggest game-changers of our time: climate change. We contribute to increased resiliency of communities by interventions that bring about greater understanding of this enormous challenge, mitigating the risks and helping build capacities of the communities in disaster preparedness and responsiveness. Building on our Business Continuity concepts, we develop approaches that will guide our individual and corporate efforts to help the victims of disasters in a variety of simple but meaningful ways

## **Consumer Protection Practices**

### **I. BACKGROUND/INTRODUCTION**

PHILIPPINE POSTAL SAVINGS BANK, INC. (the "Bank") shall provide consumer protection applicable to all its products and services, as specified in the Bangko Sentral ng Pilipinas (BSP) Circular No. 857 or "BSP Regulations on Financial Consumer Protection".

In this regard, the Bank shall:

- ensure that the implementation of all its consumer-related transactions are in compliance with regulatory requirements to ensure fair, responsible dealings and

- continuous protection of the welfare of its financial consumers/clients
- reduce fraud and theft of sensitive customer information.

The Bank adheres to the principles of disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education as minimum standards of consumer protection.

This program shall cover all products and services offered by the Bank, including those that will be introduced in the future.

## II. PROGRAM OBJECTIVES

- 2.1 To promote fair and equitable financial services practices while embedding a culture of excellent customer service.
- 2.2 To increase transparency in its



financial services information, to empower and foster consumers' confidence in the Bank's products and services.

- 2.3 To be fully compliant with existing consumer protection rules, laws and regulations.

## III. SCOPE AND COVERAGE

- 3.1 The program shall apply equally to all financial consumers/clients of

the Bank together with the Bank's products and services (such as deposits, investments, loans, among others), branches, offices, systems, processes, personnel, training, and outsource service providers, if applicable.

- 3.2. The program covers disclosure and transparency on transactions involving protection of financial consumers/clients, fair treatment, privacy of information, security measures, financial education and awareness, service delivery, and redress mechanism to handle consumer complaints.
- 3.3. The system and processes are evaluated and reviewed as the need arises and carries enforcement actions, if necessary.

## IV. CONSUMER PROTECTION OVERSIGHT & MANAGEMENT FUNCTION

The achievement of the objectives set for consumer protection relies on the authority and independence of responsible individuals for implementing the manual and performing audit/review activities, and the support provided by the Board and Senior Management.

### 4.1 Role and Responsibility of the Board

4.1.1 The Board is ultimately responsible in ensuring that consumer protection practices are embedded in the Bank's business operations. The Board adheres to the highest service standards; embraces a culture of fair and responsible dealings in the conduct of its business through a Financial Consumer Protection Framework appropriate to its structure, operations, and risk profile.

4.1.2 The Board, among other things, shall be responsible for approving a consumer protection strategy together with an effective oversight over the consumer protection manual.

4.1.3 The Board assumes **Oversight Functions** on the following:

4.1.3.1 Implementation of the consumer protection policies and mechanism to ensure compliance with said policies.

4.1.3.2 Performance of Senior Management in managing the day to day consumer protection activities of the Bank.

4.1.3.3 Development and maintenance of a sound Consumer Protection Risk Management System (CPRMS) that is integrated into the overall product and service life-cycle framework of the Bank.

4.1.3.4 The CPRMS's effectiveness including report of findings and audit mechanisms to enable adequate oversight.

4.1.3.5 The Board ensures the devotion of sufficient resources to consumer protection.

4.1.3.6 The Board may delegate related

duties and responsibilities to Senior Management and/or Committees.

4.2 Role and Responsibility of Senior Management

4.2.1 Develops a sound CPRMS and implements the consumer protection strategies as well as policies incorporated in the CPRMS as approved by the Board.

4.2.2 Oversees compliance with the Bangko Sentral ng Pilipinas' Consumer Protection Framework for Banks.

4.2.3 Ensures that the system's weaknesses are addressed and corrective and preventive actions are undertaken in a timely manner.

4.2.4 Periodically reviews the CPRMS's effectiveness including how findings are reported and audit mechanisms are in place to enable adequate oversight.

4.3 Corporate Structure

4.3.1 PPSB shall have a Consumer Assistance Officer/ Independent Business Unit with defined roles and responsibilities in handling customer concerns. This shall be headed by a Consumer Assistance Group Head. The Branch Heads/Unit Heads shall be designated as Customer Assistance Officers to handle customer concerns.

4.3.2 The Consumer Assistance Group Head shall, as a minimum, perform the following:

a. Monitor consumer assistance process;

- b. Keep track, identify and analyze the nature of complaints and recommend solutions to avoid recurrence;
- c. Report to senior management the complaints received on a monthly basis including reasons for such complaints, the recommended solutions to avoid recurrence, and the suggestions for process or personnel competency needing improvement; and
- d. Ensure immediate escalation of any significant complaint to concerned unit of the Bank.

**V. CONSUMER PROTECTION RISK MANAGEMENT SYSTEMS (CPRMS).**

The Consumer Protection Risk Management System (CPRMS), is a means by which the Bank identifies, measures, monitors, and controls consumer protection risks inherent in its operations. It is the Bank's adherence to consumer laws, rules and regulations and part of its corporate-wide Risk Management System. The CPRMS ensures that the Bank's consumer protection practices address and prevent risks to the Bank and associated risks of financial harm or loss to its consumers.

**5.1 Service Delivery Policies and Guidelines.** The Bank's business units that have direct/indirect dealings with clients and customers shall be guided by the Service Delivery Guidelines and Policies which is included in this document as Annex A.

**5.2 Code of Conduct.** PHILIPPINE POSTAL SAVINGS BANK, INC. (POSTBANK) shall have an Institutional Code of Conduct that upholds Consumer Protection and is approved by the Board. All Bank front-line personnel must signify that they shall abide by the Code

in writing. This Code is attached as Annex B.

**5.3 CPRMS Compliance Program.** A written, formal program that is essential component of the CPRMS and part of the over-all Compliance System. Implemented by the Compliance Department, the Program prevents or reduces regulatory violations and protects consumers from non-compliance, associated harm, or loss. Program is attached as Annex C.

**5.4 Internal Audit Function.** The Internal Audit Office (IAO) shall integrate a Consumer Protection Audit Program in its audit program which shall be endorsed by the Audit Committee for approval to the Board. The IAD shall perform the following:

**5.4.1** Reviews the Bank's consumer protection program and practices.

**5.4.2** Evaluates Bank units concerned as to their adherence to internal policies and procedures.

**5.4.3** Assesses compliance with existing laws, rules, and regulations.

**5.5 Training for Bank Employees.** The Human Resource Department shall develop and implement a Continuing Education Program on Financial Consumer Protection (Attached as Annex E) which shall provide specific and comprehensive training for concerned officers and staff, especially those whose roles and responsibilities have customer interface with Bank clients. These training programs should ensure that all concerned personnel must be aware of the Bank's Financial Consumer Protection policies and procedures, relevant consumer

protection laws, rules, and regulations and should be provided in a timely manner.

**5.6 Protection of Client Information.**

POSTBANK shall ensure the confidentiality of its clients' financial transactions and information. In the achievement of this goal, the Bank shall strictly enforce its Privacy and Confidentiality Policy (attached as Annex F).

**5.7 Advertising & Promotions.**

Following the rules and regulations of the BSP, POSTBANK shall ensure the following:

**5.7.1** That all advertising and marketing materials do not make false or misleading statements or claims, and are easily readable and understandable by the general banking public. Necessary disclosures and key information are included and visible. These include advantages and risks, and where more details (such as the Terms and Conditions) can be obtained and the Bank contact details.

**5.7.2** That all advertising and marketing materials disclose the required regulatory details and membership such as: BSP, PDIC and Bancnet.

**5.8 Customer Service and Complaint Handling Mechanism.**

The Bank shall provide an accessible, affordable, independent, fair, accountable, timely and efficient means for consumers/clients to air and resolve complaints regarding their transactions (Attached as Annex G). In all instances,

complaints are filed with the unit who is directly in-charge of the service as follows:

**5.8.1** ATM related complaints – filed with the ATM Department or branches

**5.8.2** Microfinance related complaints – filed with the MBO or concerned branches

**5.8.3** Deposit related complaints – filed with the front-liner or the branch where the transaction occurred.

**5.8.4** Loan related complaints – servicing Account Officer

For clients who opt to file their complaints via other means, i.e. internet, the Bank has provided an email address where clients may lodge their complaint/s.

A feedback/suggestion box is also provided in all branch lobby for walk-in clients.

**5.9 Financial Education Programs for clients.**

The Bank through its Customer Assistance group (currently being handled by the Corporate Management Services Department (CMSD), shall have a clear and defined Financial Education Program as an integral part of its ongoing relationship and interaction with its clients. These programs should improve clients' knowledge and understanding of their rights and responsibilities, basic information and risks of the Bank's products and services. These can be developed in-house or in partnership with industry associations and other groups. Topics include financial planning, investing, protection against fraud and scams, consumer rights and responsibilities, responsible

financial management, etc. These will be done via printed materials, videos (BSP infomercials) and seminars, etc.

## VI. REPORTING & MONITORING

The Corporate Governance and Risk Management Oversight Committee (CGRMC) shall oversee compliance with these guidelines and ensure that any breach shall be promptly attended to and recommend the appropriate sanctions, if any, under the Bank's Manual on Corporate Governance, Code of Conduct and related policies.

## Whistleblowing Policy

### OBJECTIVE:

Postbank management is committed in upholding and preserving the highest ethical standards in its work and one way to achieve this is through the approval and support of this policy. This policy will encourage the timely and honest reporting of alleged wrong-doing so that management will be able to provide a consistent and timely response on the disclosed allegation/s.

Postbank through its Board of Directors and duly authorized officers and employees, shall conduct the affairs, operations and business of the Bank in full compliance with applicable laws, rules and regulations, and must exemplify the behavior and professional demeanor consistent with such laws, rules, regulations, policies and procedures of the highest standard

### SCOPE:

- 2.4 All Officers and employees of the bank
- 2.5 Including the Chairman and the members of the Board of Directors

- 2.6 External customers and stakeholders of the Bank

### REFERENCE

- 3.2 BOD Resolution No. 2011-247 (approved on 04 October 2011)
- 3.3 Whistleblowing Policy approved on January 04, 2016 (Compliance Manual)
- 3.4 GCG Memorandum Circular No. 2016-02 (Revised Whistleblowing Policy for the GOCC Sector)
- 3.5 Revised Procedures in Handling of Disciplinary cases approved on September 21, 2016



### DEFINITION

Whistleblowing refers to a process where an officer or employee, with no purpose of obtaining a wrongful gain, or causing damages to others, of disclosing information that the officer/employee reasonably believes to be evidence of illegality, gross waste, gross mismanagement, abuse of power, or substantial and specific danger to public health and safety.

Whistleblower refers to an officer or employee who makes protected disclosure of relevant information on actual, suspected or anticipated

wrongdoing by any of the Bank's personnel or unit."

## **GUIDELINES:**

### **I. NATURE OF WHISTLEBLOWING**

A Whistleblower may also complain of or report acts or omissions involving:

- 1) Abuse of Authority;
- 2) Bribery
- 3) Conflict of Interest
- 4) Criminal offenses;
- 5) Damage to the environment
- 6) Deliberate concealment of any sanctionable activity
- 7) Destruction/Manipulation of Records;
- 8) Endangering the health and safety of any person;
- 9) Failure to comply with laws, rules or regulations;
- 10) Fixing;
- 11) Graft and corruption
- 12) Inefficiency;
- 13) Making False Statements
- 14) Malversation
- 15) Misappropriation of Assets;
- 16) Miscarriage of justice;
- 17) Misconduct;
- 18) Money Laundering;
- 19) Negligence of duty;
- 20) Nepotism;
- 21) Plunder;
- 22) Receiving a Commission;
- 23) Solicitation of Gifts;
- 24) Taking Advantage of Rendition of Service;
- 25) Undue delay in Rendition of Service;
- 26) Undue Influence;
- 27) Violation of Procurement Laws;

All other activities which are sanctioned under the Bank's Code of Conduct and/or may have a harmful effect on the Bank, its clients, employees, the public and/or the environment.

### **II. PROTECTION OF RIGHTS**

Whistleblowers are protected by the following:

Republic Act No. 6981 Witness Protection, Security and Benefit Act;  
Presidential Decree No. 749 Granting Immunity from Prosecution to Givers of Bribes and Other Gifts and to their Accomplices in Bribery and Other Graft Cases Against Public Officers;

Employees of the bank are governed by the Philippine Labor Code and employment contract with the bank:

- a) Without any risk of losing employment, or retribution;
- b) Without fear of harassment, ostracism and/or discrimination. And if such would occur, disciplinary action would be imposed after the appropriate procedure on the person. The provision of the Bank's Code of Conduct on Unsafe and Unsound Act Item 8.3.5.5 and existing provision in R.A. 6981 and other pertinent laws shall protect the whistleblower from any form of retaliation.
- c) Discrimination or harassment in the workplace;
- d) Demotion;
- e) Reduction in salary or benefits;
- f) Termination of contract;

This policy assures the whistleblower that if the issue was raised in good faith, he/she will be treated fairly and seriously.

This policy also assures the accused that he will be notified of the issue, the right to a due process and the right to a legal counsel.

### **III. CONFIDENTIALITY**

If the whistleblower wants to be anonymous, confidentiality shall be maintained to a reasonable extent possible, but within the existing laws on disclosure and this policy and when there is a need for an external investigation.



# Financial Statements

As of December 31, 2016 (in Philippine Peso)

COA audited FS



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines  
Corporate Government Sector  
**Cluster 1 – Banking and Credit**

## INDEPENDENT AUDITOR'S REPORT

### The Board of Directors

Philippine Postal Savings Bank, Inc.  
Liwasang Bonifacio, Manila

We have audited the accompanying consolidated financial statements of **Philippine Postal Savings Bank, Inc.**, which comprise the statements of financial position as at December 31, 2016 and 2015, and statements of comprehensive income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### **Basis for Qualified Opinion**

Provision for credit losses of secured/unsecured past due loans which were of doubtful collectability amounting to P390.332 million was not recognized in 2016. Had the provision for credit losses been recognized in 2016, loans and receivable account and income for the year would have been decreased by P390.332 million.

#### **Qualified Opinion**

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **Philippine Postal Savings Bank, Inc.** as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

#### **Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the Management of the **Philippine Postal Savings Bank, Inc.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

#### **COMMISSION ON AUDIT**

By:

  
**ROSALINDA T. SILAGAN**  
State Auditor IV  
OIC, Supervising Auditor

May 18, 2017



COA PPSBI  
Received by: Alma Zula  
Date: 2/28/17

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philippine Postal Savings Bank, Inc.** is responsible for the preparation and fair presentation of the financial statements for the year(s) ended **December 31, 2016 and 2015**, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or Trustees reviews and approves the financial statements and submit the same to stockholders or members.

The **Commission on Audit (COA)**, the independent auditors, appointed by the stockholders has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.

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**CESAR N. SARINO**  
Chairman of the Board  
President and Chief Executive Officer

\_\_\_\_\_  
**PATRICIA P. MADRIO**  
Head, Administrative and Comptrollership Group

February 17, 2017

**PHILIPPINE POSTAL SAVINGS BANK, INC.**  
(A Subsidiary of the Philippine Postal Corporation)  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2016 and 2015  
(in Philippine Peso)

	2016	2015 As Restated
<b>ASSETS</b>		
Cash and Cash equivalents	97,919,576	107,039,280
Due from Bangko Sentral ng Pilipinas	1,849,700,615	2,658,121,435
Due from other banks	2,731,871,060	2,611,314,931
Loans and receivables - net	5,535,735,961	6,114,168,687
Loans and receivables arising from RA/CA/PR/SLB	78,892,402	0
Held for trading financial assets	48,529,195	0
Available for sale financial assets	547,538,108	22,437,127
Unquoted debt securities classified as loans	50,085,797	60,266,452
Bank premises, furniture, fixtures and equipment - net	197,632,266	196,767,537
Non- Current Assets held for sale	41,000,328	41,198,221
Investment property - net	220,189,010	71,764,930
Sales contract receivables	34,465,101	32,272,651
Other asset - net	164,408,872	157,063,685
<b>TOTAL ASSETS</b>	<b>11,597,968,291</b>	<b>12,072,414,936</b>
<b>LIABILITIES AND EQUITY</b>		
Deposit liabilities	9,723,641,069	10,765,261,084
Bills payable	650,000,000	0
Manager's /Cashier's checks	16,309,768	19,097,299
Unearned income and other deferred credits	50,554,215	42,524,388
Accrued taxes and other expenses	66,072,404	106,687,323
Special time deposit	40,000,000	40,000,000
Other liabilities	69,623,409	86,672,564
<b>TOTAL LIABILITIES</b>	<b>10,616,200,865</b>	<b>11,060,242,658</b>
<b>EQUITY</b>		
Capital stock	820,242,883	800,242,883
Other comprehensive Income (loss)	-36,087,676	2,409,804
Retained earnings unappropriated	197,612,219	209,519,591
<b>TOTAL EQUITY</b>	<b>981,767,426</b>	<b>1,012,172,278</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>11,597,968,291</b>	<b>12,072,414,936</b>

**PHILIPPINE POSTAL SAVINGS BANK, INC.**  
(A Subsidiary of the Philippine Postal Corporation)  
**STATEMENT OF COMPREHENSIVE INCOME**  
December 31, 2016 and 2015  
(in Philippine Peso)

	<b>2016</b>	<b>2015</b> <b>As Restated</b>
<b>INTEREST INCOME</b>		
Interest /discount earned on loans & discounts	511,510,789	550,648,583
Interest on investments	11,505,296	9,735,682
Interest income - loans and receivable arising from RA/CA/PR/SLB	1,687,759	0
Interest on due from Bangko Sentral ng Pilipinas	34,827,568	44,895,023
Interest on deposits with banks	26,550,320	17,775,448
Interest Income on sales contract receivable	3,609,543	3,276,743
Others	193	131
	<b>589,691,468</b>	<b>626,331,610</b>
<b>INTEREST EXPENSE</b>		
Interest on deposits liabilities	148,168,713	135,532,671
Provisions for losses on accrued interest income	7,692,706	1,109,476
	<b>155,861,419</b>	<b>136,642,147</b>
<b>NET INTEREST INCOME</b>	<b>433,830,049</b>	<b>489,689,463</b>
<b>OTHER INCOME</b>		
Fees and commission income	28,684,700	26,579,472
Gain/loss from sale/derecognition of non-financial assets	6,169,379	6,061,582
Gain on financial assets and liabilities held for trading	450,917	29,329
Gain from sale/redemption/derecognition of non-trading financial assets & liabilities	5,898,334	29,515,001
Foreign exchange (loss)/gain	-10,863	68,836
Recovery on charged-off assets	570,604	1,395,763
Miscellaneous income	52,256,500	59,260,231
	<b>94,019,571</b>	<b>122,910,214</b>
<b>OPERATING EXPENSES</b>	<b>534,830,883</b>	<b>500,850,155</b>
<b>NET INCOME BEFORE TAX</b>	-6,981,263	111,749,522
<b>PROVISION FOR INCOME TAX</b>	4,926,109	45,619,430
<b>NET INCOME AFTER TAX</b>	-11,907,372	66,130,092
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized loss on Available for sale financial assets	-38,497,480	-32,444,022
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>-50,404,852</b>	<b>33,686,070</b>

**PHILIPPINE POSTAL SAVINGS BANK, INC.**  
(A Subsidiary of the Philippine Postal Corporation)  
**STATEMENT OF CHANGES IN EQUITY**  
December 31, 2016 and 2015  
(in Philippine Peso)

	Capital Stock	Other Comprehensive Income	Retained Earnings Unappropriated	Total Equity
<b>Balance January 1, 2015 before restatement</b>	<b>800,242,883</b>	<b>34,853,826</b>	<b>143,279,499</b>	<b>978,376,208</b>
Issuance of capital stock	0			0
Unrealized loss on Available for sale financial assets		-32,444,022		-32,444,022
Prior period adjustments			110,000	110,000
<b>Balance January 1, 2015 as restated</b>	<b>800,242,883</b>	<b>2,409,804</b>	<b>143,389,499</b>	<b>946,042,186</b>
Net income, 2015 before restatement			134,706,052	134,706,052
Net adjustments			-68,575,960	-68,575,960
<b>Net Income, 2015 as restated</b>			<b>66,130,092</b>	<b>68,130,092</b>
<b>Balance, December 31, 2015 as restated</b>	<b>800,242,883</b>	<b>2,409,804</b>	<b>209,519,591</b>	<b>1,012,172,278</b>
Issuance of capital stock	20,000,000			20,000,000
Unrealized loss on Available for sale financial assets		-38,497,480		-38,497,480
Net Income, 2015			-11,907,372	-11,907,372
<b>Balance, December 31, 2016</b>	<b>820,242,883</b>	<b>-36,087,676</b>	<b>197,612,219</b>	<b>981,767,426</b>

**PHILIPPINE POSTAL SAVINGS BANK, INC.**  
(A Subsidiary of the Philippine Postal Corporation)  
**STATEMENT OF CASH FLOWS**  
December 31, 2016 and 2015  
(in Philippine Peso)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Deposit(withdrawals) by clients	1,041,620,015	2,808,818,207
Interest income, fees and commission received	683,618,255	750,887,634
Release/collection of loans and receivables	328,344,839	881,065,411
Fund advances to customers and employees	956,681	832,633
Profit from sale/redemption of investments	5,898,334	29,515,001
Recoveries on loans previously written off	570,604	1,395,763
Income from assets held for trading	450,917	29,329
Proceeds from BSP for Regulatory or monetary control purposes	808,420,820	250,096,910
Deposits to other banks	120,556,130	2,494,676,098
Cash payments to suppliers	180,658,547	245,076,815
Cash payments to employees	229,138,878	191,549,150
Interest and finance charges	151,453,901	131,107,293
Prepaid taxes, licenses and other expenses	467,363	9,021,254
Cleared/returned checks and other cash items	118,581	5,667,675
Payment of/process from sale of financial assets	691,020,058	78,408,591
Payment of proceeds of unidentified cleared checks	549,718	173,656
Payment of taxes	61,020,946	64,948,353
Collection of director's disallowance and other expenses	110,000	2,817,555
Payment of litigation/asset acquired expenses	3,861,660	3,493,793
Transfer of funds from regional branches	2,323,755	5,474,314
Proceeds of short term borrowings	650,000,000	-
<b>Net cash used in operating activities</b>	<b>(5,769,028)</b>	<b>(99,784,100)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of unquoted debt securities classified as loans	10,180,655	36,889,877
Rental Income	16,951	6,845
Acquisition of property and equipment	(39,706,798)	(2,383,466)
Collection of sales contract receivables	6,169,379	6,061,582
<b>Net cash used/provided by investing activities</b>	<b>(23,339,813)</b>	<b>40,574,838</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds of long term borrowings	0	40,000,000
Issuance of common shares	20,000,000	0
<b>Net cash provided by financing activities</b>	<b>20,000,000</b>	<b>40,000,000</b>
Effects of exchange rate changes on cash and cash equivalents	(10,863)	68,836
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,119,704)</b>	<b>(19,140,426)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>107,039,280</b>	<b>126,179,706</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>97,919,576</b>	<b>107,039,280</b>

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# Notes to Consolidated Financial Statements

## 1. GENERAL INFORMATION

Philippine Postal Savings Bank, Inc. (PPSBI) is a subsidiary of the Philippine Postal Corporation (PPC) re-established and re-opened by virtue of PPC Board Resolution No.94-34 dated February 24, 1994 in fulfillment of the intents and purposes of R.A. No. 7354, otherwise known as Postal Service Act of 1992, which was enacted by the Congress on April 03, 1992. The re-establishment of PPSBI was finally approved under the Bangko Sentral ng Pilipinas Board Resolution No. 267 dated March 18, 1994. The bank was incorporated on June 22, 1994 and started operations as a savings and mortgage bank on July 21, 1994. As stated in its Vision/Mission: "The Bank shall mobilize savings and promote entrepreneurship to widen economic opportunities and to provide the Filipino people with a full range of professional banking and financial resources accessible in all areas of the country, and shall promote the values of thrift, industry and prudence especially in the youth."

Its principal place of business is at Liwasang Bonifacio, Intramuros, Manila.

As of December 31, 2016, the bank had 473 employees and operated twenty five (25) branches and six (6) Micro Banking Offices (MBO), namely:

### North Luzon Area

1. Tuguegarao, Cagayan Branch

2. Baguio Branch
3. Asingan, Pangasinan Branch
4. Dagupan, Pangasinan Branch
  - 4.1 MBO Binmaley
  - 4.2 MBO Mapandan
5. San Fernando, La Union Branch
6. Tarlac Branch

### Metro Luzon Area

1. Head Office - Liwasang Bonifacio, Manila
2. Mabalacat, Pampanga Branch
3. Malolos, Bulacan Branch
4. San Pablo, Laguna Branch
5. Lipa City, Batangas Branch

### South Luzon Area

1. Naga, Camarines Sur Branch
  - 1.1 MBO Bula
  - 1.2 MBO Bombon
2. Tigaon, Camarines Sur Branch
3. Legaspi, Albay Branch
  - 3.1 MBO Bacacay
  - 3.2 MBO Malinao
4. Sorsogon Branch

### Visayas Area

1. Tacloban, Leyte Branch
2. Tagbilaran, Bohol Branch
3. Iloilo Branch
4. Himamaylan, Negros Occidental Branch
5. Cebu Branch
6. Bacolod Branch

### Mindanao Area

1. Davao Branch
2. Zamboanga Branch
3. Cagayan de Oro Branch
4. Manolo Fortich, Bukidnon Branch

In December 2016, the National Government directed the Land Bank of the Philippines to initiate the acquisition of Postbank as its subsidiary, with the plan of eventually converting it to a Bank for Overseas Filipino Workers (OFWs).

The said plan was also made public via pronouncements in major broadsheets by the Secretary of Finance.

This paved way for the conduct of due diligence on bank operations which started January 2017 and preliminary discussions between Land Bank of the Philippines (LBP) and Postbank officials to implement the government's directive.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### 2.1 Basis of Financial Statement Preparation

The Bank's consolidated financial statements have been prepared in accordance with the applicable accounting principles generally accepted in the Philippines and as set forth in the Philippine Financial Reporting Standards/ Philippine Accounting Standards (PFRS/PAS). These financial statements are prepared on the historical cost basis modified by the fair value measurement of financial assets on Available for Sale Securities. The accompanying financial statements of the Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The preparation of financial statement requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

The accounting policies adopted are consistent with those of the previous years.

Financial statements are presented in Philippine peso, which is the functional and presentation currency.

### 2.2 Foreign Currency Translation

Foreign currency transactions are accounted for and revalued monthly using the month-end Philippine Dealing and Exchange System (PDEX) closing rate. Foreign exchange differences arising from the revaluation are charged to operations.

### 2.3 Cash and Other Cash Items

For purposes of presentation in the consolidated statement of cash flows, Cash and other cash equivalents consist of cash and other cash items on hand.

### 2.4 Due from Other Banks

This account refers to the balances of funds deposited with other local banks to meet not only reserve requirements but also to cover operational requirements including payroll and tax requirements.

### 2.5 Financial Assets/Liabilities

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and customers and loans are recognized when cash is received or released to the borrowers.

In accordance with PAS 39-Financial Assets – Recognition and Measurement, the Bank's financial assets or financial liabilities are recognized initially at fair value. Subsequent to initial recognition, we continue to measure at fair value except for the loans and receivables, which are measured at amortized cost using the diminishing balance method. Gains and losses arising from changes in the fair values of available for sale financial assets are recognized directly in the equity until the financial asset is derecognized or

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impaired at which time the cumulative gain or loss statement. Gain or loss arising from the change in fair value of Unquoted Debt Securities Classified as Loans and Held to Maturity Financial assets are recognized in profit or loss when the security is derecognized or impaired, and through the amortization process.

The Bank classifies its financial assets under the following categories:

a. Financial Assets Available for Sale (AFS)

Available for sale investments are those purchased and held indefinitely, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices.

b. Financial Assets – Held to Maturity (HTM)

These are debt securities, quoted in an active market with fixed or determinable payments and fixed maturity for which the Bank has the positive intention and ability to hold until maturity.

c. Unquoted Debt Securities Classified as Loans

These are debt securities with fixed or determinable payments that are not quoted in an active market.

d. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: a) those that the bank intends to sell immediately or in the near term, which shall be classified as High Frequency Trading (HFT) and those that the entity upon initial recognition designates as at fair value through profit or loss; b) those that the Bank designates as AFS upon initial recognition; or c) those for which the holder may not recover substantially all of its initial investment, other than because of

credit deterioration, which shall be classified as AFS.

Regular loans (Loans to Gov't, Agri-Agra, Development. Incentive, SME and microfinance, contract to sell and others) are carried in the books at its amortized cost or the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the diminishing balance method, minus any reduction –directly or through the use of an allowance account – for impairment or uncollectibility.

There are fees and other charges that are recognized immediately as income upon collection except for the advance interests, which are booked under Unearned Income account. Starting July 2014, the Bank started to use the Effective Interest Rate Method of calculating interest on new loans releases. Transactions costs were amortized over the life of the loan.

Past due loans and receivables are automatically carried on non-accrual basis. Interest incomes on such accounts are recognized only upon collection.

Unclassified Loans are loans that do not have a greater-than normal risk and do not possess the characteristics of classified loans as defined below:

- a. Loans or portions thereof secured by holdouts on deposit/deposit substitutes maintained in the lending institution and margins deposits, or government- supported securities; and
- b. Loans with technical defects and deficiencies in documentation and/or collateral requirements. These deficiencies are isolated cases where the exception involved are not material nor is the Bank's chance to be repaid or the borrower's ability to liquidate the loan in an orderly manner undermined. These exceptions should be brought to management's

attention for corrective action during the examination and those are not corrected shall be included in the Report of Examination under “Miscellaneous Exceptions – Loan”. Moreover, deficiencies which remained uncorrected in the following examination shall be classified as “Loans Especially Mentioned”.

Classified Loans are loans which possess the characteristics outlined hereunder:

- a. Loans Especially Mentioned are loans and advances that have potential weaknesses that deserve management’s close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.
- b. Substandard are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There exists in such loans the possibility of future loss to the institutions unless given closer supervision. Those classified as “Substandard” must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.
- c. Doubtful Loans are loans or portion thereof which have the weaknesses inherent in those classified as “Substandard”, with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

- d. Loss are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

Loan Loss Estimation Methodology, Provisioning and Allowance for Credit Losses:

- a. All FIs shall develop and document a sound loan loss methodology that can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, using their experience and research and this guidance to ensure that the specific and collective allowance for credit losses (ACL) are adequate and approximates the expected losses in their credit portfolio.

An FI’s loan loss methodology shall consider the following:

- a.1 Written policies and procedures for the credit risk systems and controls inherent in the methodology, including roles and responsibilities of the FI’s board of directors and senior management;
- a.2 A detailed analysis of the entire loan portfolio, including off-balance sheet facilities, performed on a regular basis;
- a.3 A realistic view of its lending activities and uncertainty and risks inherent in those activities in preparing accounting information. Loan accounting policies and practices shall be selected and applied in a consistent way that reasonably assures that loan and loan loss provision information is reliable and verifiable;

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a.4 Identification of loans to be evaluated individually and segmentation of the remaining portfolio into groups of loans with similar credit risk characteristics for collective assessment.

a.4.a. Individually assessed loans. FIs shall establish a materiality threshold for significant credit exposures that will warrant an individual assessment, which threshold shall be regularly reviewed.

The loan loss estimates shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of the evaluation date. The following factors are relevant in estimating loan losses for individually assessed loans:

- a.4.a.1. Significant financial difficulty of the borrower;
- a.4.a.2. Probable bankruptcy or other financial reorganization of the borrower;
- a.4.a.3. Breach of contract, such as a default or delinquency in interest or principal payments; or
- a.4.a.4. Concession granted by the FI, for economic or legal reasons relating to the borrower's financial difficulty, which would not otherwise be considered.

The methodology shall include procedures describing the determination and measurement of the amount of any impairment, the impairment measurement

techniques available and steps performed to determine which technique is most appropriate in a given situation.

a.4.b. Collectively assessed loans. FIs may use different methods to group loans for the purpose of assessing credit risk and valuation. More sophisticated credit risk assessment models or methodologies for estimating expected future cash flows, including credit risk grading processes, may combine several of the following characteristics: loan type, product type, market segment, estimated default probabilities or credit risk grading and classification, collateral type, geographical location and past-due status.

Estimated credit losses shall reflect consideration of the FI's historical net charge-off rate of the groups, adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans in these groups as of the evaluation date, and applied consistently over time:

- a.4.b.1. Methods used to determine whether and how loans individually evaluated, but not considered to be individually impaired, shall be grouped with other loan (excluding individually assessed loans that are impaired) that share similar credit risk characteristics for collective impairment evaluation;
- a.4.b.2. The quality and net realizable values of physical collateral and other financial guarantees and credit risk

- mitigants incorporated in the loan agreement, where applicable;
- a.4.b.3. Address the methods used to validate models for credit risk assessment;
- a.4.b.4. The analyses, estimates, reviews and other provisioning methodology functions shall be performed by competent and well-trained personnel and be well documented, with clear explanations of the supporting analyses and rationale; and
- a.4.b.5. Use experienced credit judgment. Assessment of expected losses shall not be based solely on prescriptive rules or formula but must be enhanced with experienced credit judgment by the appropriate levels of management in as much as historical loss experience or observable data may be limited or not fully relevant to current circumstances. However, the scope for actual discretion shall be prudently within the following constraints:
- a.4.b.5.a. Experienced credit judgment shall be subject to established policies and procedures;
- a.4.b.5.b. With approved and documented analytical framework for assessing loan quality applied consistently over time: Estimates shall be based on reasonable and verifiable assumptions and supported by adequate documentation; and
- a.4.b.5.c. Assumptions concerning the impact on borrowers of changes in general economic activity, both favorable and

unfavorable, shall be made with sufficient prudence.

The method of determining loan loss provisions shall reasonably assure the timely recognition of loan losses. While historical loss experience and recent economic conditions are a reasonable starting point for the institution's analysis, these factors are not, by themselves, sufficient basis to determine the appropriate level of aggregate loan loss provisions. Management shall also consider any current factors that are likely to cause loan losses to differ from historical loss experience, including changes in the following:

- a. Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices;
- b. International, national and local economic and business conditions and developments, including the condition of various market segments;
- c. Trend, volume and severity of past due loans and loans graded as low quality, as well as trends in the volume of impaired loans, troubled debt restructuring and other loan modifications;
- d. The experience, ability and depth of lending management and staff;
- e. Changes related to new market segments and products;
- f. Quality of the FI's loan review system and the degree of oversight by senior management and board of directors;
- g. The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

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- h. Credit risk profile of the loan portfolio as a whole as well as the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the FI's current portfolio.

Experienced credit judgment shall also be used to determine an acceptable period that will yield reliable historical loss rates as loss rate periods shall not be restricted to a fixed time period to determine the average historical loss experience for any group of loans with similar credit risk characteristics.

An FI shall maintain sufficient historical loss data over a full credit cycle to provide robust and meaningful statistical loan loss estimates for establishing the level of collective impairment losses for each group of loans with similar credit risk characteristics. When applying experienced credit judgment, an FI shall provide a sound rationale for excluding any historical loss data that is deemed not representative of the performance of the portfolio.

- b. FIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or whose practices fell short of expected standards shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed in *Appendix 18 of Manual of Regulations for Banks (MORB): Provided, that the FIs notify the Bangko Sentral, through their respective Central Points of Contract, of this preference. Nevertheless, such FIs shall still use experienced credit judgment, subject to the criteria prescribed in*

this Subsection, in determining the ACL.

- c. FIS shall set up general loan loss provision equivalent to one percent (1%) of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent (<1%), less loans which are considered non-risk under existing laws, rules and regulations.

FIs shall ensure the adequacy of the individual and collective ACL for the entire loan portfolio. They shall have a policy for the regular review of the ACL, which shall be conducted at least semi-annually after considering results of the credit review, level of classified loans, delinquency reports, historical losses and market conditions.

Failure to make adequate provisions for estimated future losses results in material misrepresentation of a FI's financial condition.

As a general rule, past due accounts shall refer to all accounts of the Bank under its loan portfolio which are not paid at maturity.

- a. The following shall be considered as past due:

- a.1 Loan receivable payable on demand not paid on the date indicated on the demand letter, or within three months from the date of grant, whichever comes earlier;

- a.2 Bills discounted and time loans, whether or not representing availments against a credit line, not paid on the respective maturity dates of the promissory notes;

- a.3 Bills and other negotiable instruments purchased, if dishonored upon presentment for acceptance/payment or not paid on maturity date, whichever comes earlier: provided, however, that an out-of-town check

and a foreign check shall be considered as past due if outstanding for 30 days and 45 days, respectively, unless earlier dishonored; and

a.4 Loans or receivables payable in installments where the number of installment in arrears fall under the following:

Mode of Payment	Min. No. of Installment in Arrears
Monthly	3
Quarterly	1
Semestral	1
Annual	1

Provided, however, that when the total amount of arrearages reaches 20 percent of the total outstanding balance of the loan/receivable, the total outstanding balance of the loan/receivable shall be considered as past due, regardless of the number of installment in arrears.

Provided, further, that for modes of payment other than those listed above (e.g., daily, weekly, semi-monthly), the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches 10 percent of the total loan/receivable balance.

b. Reclassification of loan accounts to past due status shall be effected on the banking day immediately following the date when any of the preceding conditions has been reached. In determining the total number of days past due, the relevant time period is reckoned as follows:

Payment Type	Reclassification date
Lump sum (single) payment	From maturity date to payment date
Amortized	From date of first default to payment date

c. If a borrower has past due obligations, the Bank may declare the borrower's

other current obligation as due and demandable.

d. The decision to proceed with the collection of outstanding obligations in current status as well as the suspension of credit lines shall rest with the same approving authority which approved the loan.

e. When the account turned past due, real estate tax and insurance premium shall be updated by the lending unit concerned if the client fails to pay such obligations.

f. A grace period of 30 days is given to clients after the due date where no penalty charges shall be imposed.

g. Past due interest shall be computed on loans considered past due. Interest on past due loans (amortized) before the maturity date shall be computed as is using the interest rate indicated in the PN. Interest on the past due loans after the maturity date shall be computed using the interest rate indicated in the PN or the prevailing interest rate at the time of payment, whichever is higher.

h. Penalty charge shall be computed on delayed amortization or, in case of past due accounts, on outstanding balance. Amortization shall mean principal and/or interest payment. When the payment due date falls on a Saturday, Sunday or a non-working holiday, payment made on the next banking days shall be deemed to have been received on the original due date. No penalty charges shall be imposed accordingly.

## 2.6 Sales Contract Receivable

These are receivables from assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said properties are transferred to the names of the respective buyers only upon full payment of the agreed selling price. These are recorded initially at the value of the

installment receivables due from borrower. Discounts are accreted over the life of the SCR by crediting interest income. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18.

## 2.7 Impairment

A financial asset is impaired if its carrying cost less allowance for losses exceeds its recoverable values. Recoverable amount is the higher of its fair market value less cost to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. Impairment losses are recognized in the books only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably measured/estimated. The carrying amount of the asset is also reduced through the use of an allowance account. The amount of the impairment loss is recognized in the income statement.

Uncollectible loans are written off against the related allowance account for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written off are recognized as deductions to provisions in the income statement.

If in a subsequent period, the amount of the recognized impairment loss decreases, and the decrease can be related objectively to an event after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account and the amount of reversal is recognized in the income statement.

In case of Investment property, Bank Premises, Furniture, Fixtures and

Equipment (BPFPE) and other assets, impairment loss is the difference between the carrying amount and the fair value less cost to sell in case carrying amount is higher. The loss is recognized in the income statement and an allowance account is set up to reduce the carrying amount of the asset.

## 2.8 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment including leasehold improvements are stated at cost less accumulated depreciation and amortization and any impairment in value. Depreciation is computed based on a straight-line method net of ten percent residual value of acquisition cost over the estimated useful lives of the related assets as follows:

Building	10-20 years
Furniture and Fixtures	5-10 years
Equipment	5 years
Leasehold Improvements	5 years (maximum)

Impairment is only recognized when there is substantial evidence of the decline in the value of the bank premises, furniture, fixtures and equipment.

The cost of leasehold improvements is amortized over the term of the lease or the estimated useful life of the improvements not exceeding 5 years whichever is shorter. Minor expenditures for replacement, maintenance and repairs are expensed as incurred. Major renovations and improvements that will extend the life of the asset are capitalized.

Properties that are no longer needed or uneconomical to maintain are disposed of in accordance with the existing guidelines on disposal. The cost and the related accumulated depreciation and amortization of the disposed assets are derecognized from the books and any resulting gain or loss is credited or charged to current operations.

## 2.9 Non-Current Assets Held for Sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable the appropriate level of management is committed to a plan to sell the Assets and an active program to locate a buyer and the plan has been initiated. Further, the assets are actively marketed for sale at a price that is reasonable in relation to its current fair value. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Non-current assets classified as held for sale should be measured at the lower of its carrying amount and fair value less cost to sell. The Bank shall recognize an impairment loss for any initial or subsequent write-down of the asset to fair value less cost to sell.

## 2.10 Investment Property

These are generally land and buildings acquired by the Bank either through foreclosure (legal proceedings initiated by the Bank to acquire the collateral securing the loan of the defaulting borrowers) or dacion en pago in settlement of loans and advances of defaulting borrowers, or assets acquired through the implementation of an execution of attachment of real properties in settlement of the Bank's deficiency claims against defaulting borrowers (legal proceedings initiated by the Bank in case there are still deficiency claims after all the underlying collaterals of the borrowers were

judicially/extra-judicially acquired by the Bank). These assets are being held until such time that these are readily available for disposition and are reclassified to Non-Current Assets Held for Sale.

Expenditures such as repairs and maintenance are charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of acquired assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of acquired assets held for sale.

## 2.11 Leases

The leases entered into by the bank are primarily operating leases. The payments made under operating leases are recognized as an expense on a straight-line basis over the period of the lease. The bank leases the premises of its 3 branches (Cagayan de Oro, Baguio and Dagupan) from Philippine Postal Corporation, its mother corporation, for periods ranging from five to ten years renewable upon mutual agreement of both parties. The costs of renovations effected by the bank on PPC premises are charged against future rentals payable.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

## 2.12 Intangible Assets

Intangible assets represent costs of software licenses and cost incurred directly in the development and maintenance. These are measured at cost and amortized based on a straight-line method with an expected maximum useful life of 10 years. Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

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Cost that are directly associated with the production of identifiable and unique software products controlled by the bank and that will probably generate economic benefits exceeding costs, beyond one year, are recognized as intangible assets.

Direct costs include software licenses, software development, employee costs and the related overheads.

### 2.13 Deferred Tax Asset

Deferred tax assets are the amount of income taxes recoverable in future periods, which are recognized for all deductible temporary differences.

### 2.14 Recognition of Income and Accounting for Expenses

Interest, other income and expenses are recognized on accrual basis, except for those loan accounts, which are adversely classified consistent with the guidelines of the BSP.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The following are the critical judgments and key assumptions that have significant influence in the carrying amounts of assets and liabilities:

### 3.1 Impairment losses of loans and receivables

The Bank reviews its loan portfolio to assess impairment at least annually or as the need arises. In determining whether an impairment loss should be recorded in the books, the Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows including information indicating that there has been an adverse change in payment status of borrowers, or national or local economic conditions that correlate with defaults on assets.

### 3.2 Impairment of AFS investments

The Bank considers AFS investments as impaired when there has been a significant or prolonged decline in fair value (market value) below its cost. The determination of what is significant or prolonged decline in fair value requires judgment.

In making this judgment, the Bank evaluates among other factors, the normal volatility in prices. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the Investee Company, industry and sector performance, changes in technology and operational and financing cash flows.

### 3.3 Held to Maturity Financial Assets

The Bank follows the guidelines of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment for the Bank in evaluating its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances, the Bank will be required to reclassify the entire portfolio as AFS. The investments would therefore be measured at fair value and not at amortized cost.

### 3.4 Impairment of Bank Premises, Furniture,

#### Fixtures and Equipment /Other Assets

Assets are reviewed and tested whenever there is indication of impairment at least annually. Impairment of assets requires estimates and judgments through the use of certain tools/devices/factors/market data.

## 4. FAIR VALUES OF FINANCIAL ASSETS & LIABILITIES

The methods and assumptions used by the Bank in estimating fair values of the financial instruments are the following:

- 4.1 For debt securities, its fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either value obtained

from independent parties offering pricing services or adjusted quoted market prices of comparable investments.

- 4.2 For short-term investments, carrying amounts approximate fair values.
- 4.3 For other financial assets and financial liabilities with quoted market prices not readily available, they are reported at cost.
- 4.4 For Cash and cash equivalents, carrying amounts approximate fair values.

## 5. MANAGEMENT OF RISKS RELATED TO FINANCIAL INSTRUMENTS

The Bank has established risk management systems to address the risks inherent to its activities which include, among others, credit, market, liquidity, foreign currency, and interest rate risks.

Decisions in relation to risk management are made by the Risk Management Committee (RMC), which ensures effective monitoring and control over risks being taken. The committee, together with the Risk Officer, is responsible for the development, implementation, maintenance, improvement and communication of the risk management policy while each business and supporting unit has the primary task of managing the risks applicable to its area of responsibility.

### Overall Risk Management Philosophy

Postbank considers sound and adequate risk management as critical component of a stable and profitable financial institution. As risk is an inherent part of its business undertakings - present in the financial instruments it acquires and trades, in loans it grants, in deposits it generates to fund its requirements, and even in people it hires - it is imperative that risk-related issues are taken into consideration in all its business decisions and communicated across the Bank starting from the Board of Directors to Senior Management down to actual risk-

taking units through a well-defined risk system and structure. A sound corporate risk management philosophy translates into prudent risk-taking and proactive portfolio management enabling Postbank to pursue its financial expansion while maintaining adequate capital at all times.

### Risk Management System and Structure

The risk management framework at Postbank is a top-down process where all risk policies and procedures are approved by the Board of Directors (BOD). The Board sets the overall risk tolerance of the Bank that is consistent with its business plan, financial strength and organizational capability.

BOD has created the Corporate Governance and Risk Management Committee (CGRMC), composed of 5 members of the Board, to oversee the implementation of risk management process that includes development of various risk strategies and principles, implementation of risk measurement tools, monitoring risk indicators and approval of risk limits.

**The Risk Management Office (RMO)** is the direct support of the CGRMC in the day-to-day identification, measurement, monitoring and control of risks. As an independent unit reporting directly to the Board, RMO consults with business units in identifying, measuring, and implementing risk management methodologies and controls. It assists business and operating units in measuring risk/return to better manage their risk profile. **The Senior Management** of Postbank is also actively involved in the in planning, reviewing and assessing different risks being managed by the Bank through the various committees. The Management Committee (ManCom) ensures that all business objectives are aligned with the risk tolerance set by the Board. The **Assets and Liabilities Management Committee** (ALMC) is responsible for ensuring market and liquidity risks are adequately addressed on long-term and daily basis. The **Lending Committee** (LendCom) which has been delegated with credit authority limits,

reviews, approves/ recommends loan proposals and credit policies to the Board.

**Internal Audit Group** provides another layer for independent check and balance to further strengthen risk controls and compliance. Internal Audit ensures that risk-takers comply with standards and established policies. It also evaluates the effectiveness and adequacy of the Bank's risk management framework particularly on its control processes.

**Legal Group** has the primary responsibility of reviewing all Bank's documents for completeness and enforceability under respective legal jurisdiction.

**Compliance Office** oversees that the Bank is effectively managing compliance of regulatory risk as prescribed by the Compliance Manual.

The same unit is also responsible for the implementation of the Anti-Money Laundering Program.

#### Credit Risk

Credit risk pertains to risk of financial loss due to non-payment by borrowers, issuer or counterparties of their obligations, deterioration in credit quality and reduced recovery from a credit facility in the event of default. The Bank is exposed to credit risk as lender, holder of securities and as counterparty in trading activity.

The Bank follows the Single Borrower's Limit prescribed by the Bangko Sentral ng Pilipinas (BSP). Credit exposures are constantly monitored and a credit evaluation process is conducted to assess the credit-worthiness of each borrower. The result of the credit evaluation is used as basis in adjusting credit lines periodically. To efficiently manage credit exposures, collateral and other applicable agreements are executed with counterparties whenever possible.

The Bank monitors and reviews from time to time the credit practices and reporting, and if appropriate, approve credit policy changes and procedures to ensure that

credit policies are appropriate and are being complied with.

Activities, Information and Communication, Electricity, Gas, Steam and Airconditioning Supply and Activities of Extra-Territorial Org. and Bodies.

In terms of credit risk monitoring, the Bank prepares report on credit quality as summarized below (in million Pesos):

	2016	2015
Neither past due nor impaired	3,642	5,888
Past Due but not impaired	121	65
Impaired	2,105	462
	5,868	6,415
Less: Specific allowance for credit losses	295	209
	<b>5,573</b>	<b>6,206</b>

The Bank further classifies its non-performing loans into secured and unsecured (in million Pesos):

	2016	Per cent	2015	Per cent
Secured	1,610	76	181	39
Unsecured	495	24	281	61
	<b>2,105</b>	<b>100</b>	<b>462</b>	<b>100</b>

#### Market Risk

The Bank's exposure to market risks originates primarily from its risk-taking activities on fixed income investments in securities and foreign exchange effects. Transaction limits are used to operationally manage market risks.

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices, commodity prices and other market indicators may affect the Bank's income or values of its financial assets. The Bank uses mark-to-mark and factor sensitivity to manage risk on its securities portfolios.

Treasury market risks originate from its holdings of debt securities mainly as

compliance to liquidity reserves for government deposits. Further, it classifies its debt securities exposures under trading and non-trading portfolios. The Bank has an outstanding exposure of ₱50 million under the Held for Trading (HFT) portfolio as of December 31, 2016.

The Bank's government securities classified under Available for Sale Securities (AFSS) which have an average yield to maturity (YTM) of 3.27% registered an unrealized loss/marked to market loss of ₱36.088M for a ₱547M portfolio.

For Unquoted Debt Securities Classified as Loans (UDSCL) being used as alternative compliance to Agri-Agra law, the Bank's exposure amounted to ₱50 million with an average coupon rate 6.5 percent.

#### Liquidity Risk

Liquidity risk pertains to potential losses to the Bank arising from either its inability to meet its obligations or to fund maturing liabilities as they fall due. Senior Management through the Assets and Liabilities Management Committee (ALMC) is responsible for the implementation of sound policies and procedures keeping in mind the strategic direction and risk appetite of the Bank.

Liquidity risk is the risk of loss to earnings or capital due to inability to meet funding requirements or payment of obligations as they fall due. Postbank liquidity policy is to maintain sufficient liquidity level not only to service deposit withdrawals and other contractual obligations but also to provide ample buffer to meet any unplanned changes in funding sources or changes in market conditions. Part of liquidity management strategy is to keep a sizeable amount of liquid assets like marketable government securities, and Deposit Balances with BSP such as Special Deposit accounts (SDA).

The Assets and Liabilities Management Committee (ALMC) and Treasury Group supervise the liquidity planning of the Bank both for the day-to-day funding

requirements and for balance sheet management purposes. Daily cash flow projection and analysis of liquidity position are prepared with any excess funds temporarily park on interbank placements or deposit balances with BSP.

The liquidity risk management process at Postbank also includes the preparation of liquidity gap reports. Also called Maximum Cumulative Outflow (MCO) report, it reveals the mismatch on the tenor of the assets against liabilities with risk that the Bank may be forced to borrow at higher rate or sell its assets at a discount to generate the required liquidity. The analysis of the MCO report contains risk mitigating measures on how to close the negative gaps particularly on the shorter tenor buckets. The MCO report also takes into account behavioral pattern of deposit withdrawal specifically deposits retained beyond the contractual maturity.

Presented below is the Maximum Cumulative Outflow (MCO) report as of December 31, 2016 (In million Pesos).

	Up to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 15 years	Total
<b>Assets</b>					
Cash and cash equivalents*	98	0	0	0	98
Due from BSP and other banks*	4,582	0	0	0	4,582
Investment securities	48	0	50	548	646
Loans and receivables	486	1,083	1,159	2,886	5,614
Other assets*	118	24	41	475	658
<b>Liabilities</b>					
Deposit Liabilities*	9,244	476	4	0	9,274
Accrued interest expense	5	10	0	0	15
Other liabilities	877	0	0	0	877
	10,126	486	4	0	10,616
<b>Equity</b>				982	
Net liquidity surplus (gap)	(4,794)	621	1,246	2,927	
Cumulative gap	(4,794)	(4,173)	(2,927)	0	

\*Includes accounts in Foreign Currency Deposit Unit (FCDU)/ Expanded Foreign Currency Deposit Unit (EFCDU).

1/ Includes Core deposits or those funds expected to remain with the Bank after deducting for volatile deposits and reserves that can be used for lending operations.

### Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable levels. Risk is addressed on a transactional level by matching the benchmark rate or basis for repricing of a particular asset with that of the equivalent source of fund at the onset of the transaction. Further, sensitivity analysis is regularly performed to efficiently manage risk on earnings.

When measuring the interest rate risk, we consider liabilities as funding the Bank's asset (inversely related to liquidity risk, where we looked at assets as sources of funds to pay off maturing liabilities). The balance sheet is pulled apart into time buckets, showing when the assets will and liabilities will reprice or change their interest rates. The repricing gap analysis is calculated by first slotting the interest rate sensitive assets and liabilities into tenor buckets according to next re-pricing date (or the time remaining to maturity if the account has a fixed term), and then obtaining the difference or gap per defined buckets. A gap is considered negative when the level of interest rate sensitive liabilities exceeds that of assets. Conversely, a positive gap indicates more interest rate sensitive assets than liabilities. In an increasing interest rate scenario, a negative repricing gap would translate into potential reduction in interest income.

The following table shows the re-pricing gap position of Postbank as of December 31, 2016 (In million Pesos):

QUALIFYING CAPITAL	Up to 1 mo.	Over 1 mo. to 3 months	Over 3 mos. to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 15 years	Over 15 Years	Total
<b>Financial Assets</b>								
Due from Other banks	1,016	-	-	-	-	-	-	1,016
Total Investments	48	-	-	50	-	548	-	646
Total Loans and Receivables	1,228	197	250	688	307	748	6	3,424
Sales Contract Receivables	-	-	1	5	28	-	-	34
<b>Total Financial Assets</b>	<b>2,292</b>	<b>197</b>	<b>251</b>	<b>743</b>	<b>335</b>	<b>1,296</b>	<b>6</b>	<b>5,120</b>
<b>FINANCIAL LIABILITIES</b>								
Deposit Liabilities	4,303	4,793	626	-	2	-	-	9,724
<b>Total Financial Liabilities</b>	<b>4,303</b>	<b>4,793</b>	<b>626</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>9,724</b>
Repricing Gap	(2,011)	(4,596)	(375)	743	333	1,296	6	(4,604)

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	2016	2015
Cash on Hand	97,236,828	90,085,473
Checks and Other Cash Items	643,748	7,853,807
Petty cash Fund	39,000	100,000
	97,919,576	107,039,280

## 7. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account represents the following:

- Demand deposits which the bank utilizes in its clearing operations
- Special Deposit Account for liquidity requirement purposes, and
- Reserve Deposit Account for the Circular 10 compliance of the bank with the Bangko Sentral ng Pilipinas.

	2016	2015
Reserve Deposit Account	1,270,000,000	1,977,000,000
Demand Deposit Account	579,700,615	681,121,435
	<b>1,849,700,615</b>	<b>2,658,121,435</b>

## 8. DUE FROM OTHER BANKS

This account represents demand deposit account, short-term investments in special savings deposits and premium savings account deposited with the following banks:

	2016	2015
Maybank	645,980,535	517,992,437
Land Bank of the Philippines (LBP) Peso Account	443,167,189	3,009,428
China Bank	248,996,386	503,800,256
United Coconut Planters Bank (UCPB) Peso Account	214,220,188	87,583,809
Security Bank	201,288,444	0
Malayan Bank	201,086,875	0
Union Bank	200,952,800	0
East West Bank	199,940,017	0
Metro Bank and Trust Company	199,526,400	504,790
Asia United Bank	150,675,582	1,050,535
Philippine National Bank Peso Account	11,574,094	15,985,822
Philippine Business Bank	11,280,068	1,471,639,217
Rizal Commercial Banking Corporation	2,956,806	6,616,716
Philippine Savings Bank	136,348	219,566
Banco de Oro Unibank, Inc.	61,379	62,256
Development Bank of the Philippines	27,949	29,091
UCPB US Dollar Account	0	2,504,942
PNB US Dollar Account	0	215,418
LBP US Dollar Account	0	100,648
	<b>2,731,871,060</b>	<b>2,611,314,931</b>

## 9. LOANS & RECEIVABLES

This account consists of:

	2016	2015 As Restated
Loans to Private Corporation	2,602,327,102	2,948,734,019
Small and Medium Enterprises	933,113,887	998,800,045
Consumption Loans	850,629,878	900,097,949
Agrarian Reform and Other Agricultural Loans	413,021,660	388,089,625
Loans to Government	380,076,388	469,887,596
Contract to Sell	365,403,240	437,252,575
Microfinance Loans	134,437,435	80,965,343
Loans to Individual for Housing Purposes	107,428,159	114,512,730
Loans to Individuals for Other Purposes	82,345,535	76,264,742
Allowance for Losses	(333,047,823)	(300,435,837)
Net of Allowance As to Status	5,535,735,961	6,114,168,687

	2016	2015 As Restated
Current Loans	3,763,119,508	5,953,000,393
Non-Performing Loans	2,105,663,776	461,604,231
	5,868,783,284	6,414,604,624
As to Security		

	2016	2015 As Restated
Secured Loans	4,087,555,859	4,763,632,341
Unsecured Loans	1,781,227,425	1,650,972,283
As to Type of Security		

	2016	2015 As Restated
Real Estate Mortgage	3,369,694,665	2,805,383,235
Other Collaterals	717,861,194	1,958,249,106
	4,087,555,859	4,763,632,341

Consumption loans include financial assistance given to eligible employees of the PPC & PPSBI, for personal consumption such as educational, hospital or medical, appliance purchase and/or working capital for business/ livelihood purposes in the form of salary loans in a maximum amount of P150,000 and P250,000, respectively.

## 10. LOANS AND RECEIVABLE ARISING FROM RA/CA/PR/SLB

This pertains to loans arising from repurchase agreement with Bangko Sentral ng Pilipinas.

## 11. HELD FOR TRADING FINANCIAL ASSETS

This comprises securities purchased from Rizal Commercial Banking Corporation.

## 12. AVAILABLE FOR SALE FINANCIAL ASSETS

This account is composed of investments in government treasury bills and fixed treasury notes purchased from the following:

	2016	2015
Rizal Commercial Banking Corporation	300,182,352	0
Security Bank Corporation	106,444,289	0
East West Banking Corporation	93,940,978	0
China Bank	46,970,489	0
Hongkong and Shanghai Bank	0	22,437,127
	<b>547,538,108</b>	<b>22,437,127</b>

## 13. UNQUOTED DEBT SECURITIES CLASSIFIED AS LOANS

These are securities invested for compliance purposes:

	2016	2015
Philippine Commercial Capital, Inc.	50,085,797	50,163,524

	2016	2015
SB Corporation Note (MSME)	0	10,102,928
Rizal Commercial Banking Corporation	0	0
	<b>50,085,797</b>	<b>60,266,452</b>

Investments in government securities are held by the Bureau of Treasury under the Registry of Scripless Securities (ROSS) System in compliance with BSP Memorandum Circular (series of 1997) dated October 6, 1997.

## 14. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

This account consists of:

PPSBI building was acquired thru Dacion en Pago from Philippine Postal Corporation on November 02, 2012 with booked value amounting to ₱37,567,000.

	Land	Building	Furniture, Fixture and Equipment	Motor Vehicles	Computer and Peripherals	Lease, Right and Improvements	Totals
<b>Cost</b>							
1-Jan-16	131,008,000	41,501,900	66,040,091	13,615,179	142,322,021	28,246,452	422,733,653
Additions	0	118,000	5,229,630	269,594	12,025,888	1,226,784	18,869,896
Disposals	0	0	(2,221,713)	(31,000)	(9,093,225)	(1,953,410)	(13,299,346)
Reclassifications	0	(118,000)	(2,387,744)	(7,600)	(7,189,665)	(465,561)	(10,168,570)
31-Dec-16	131,008,000	41,501,900	66,660,264	13,846,173	138,065,019	27,054,275	418,135,631
<b>Accumulated Depreciation</b>							
1-Jan-16	0	8,462,304	56,150,973	11,876,052	127,939,957	20,036,738	224,466,024
Provisions	0	2,821,414	2,801,252	412,832	5,608,142	1,861,027	13,504,667
Disposals	0	0	(2,167,923)	(33,125)	(8,772,394)	(1,953,410)	(12,926,852)
Reclassification	0	0	(1,467,111)	(7,410)	(2,753,003)	(312,950)	(4,540,474)
31-Dec-16	0	11,283,718	55,317,191	12,248,349	122,022,702	19,631,405	220,503,365
<b>Carrying Amount</b>							
31-Dec-16	131,008,000	30,218,182	11,343,073	1,597,824	16,042,317	7,422,870	197,632,266
<b>Carrying Amount</b>							
31-Dec-15 (restated)	131,008,000	33,039,596	9,889,118	1,739,127	12,907,145	8,184,551	196,767,537

## 15. NON-CURRENT ASSETS HELD FOR SALE

These are real and other properties acquired that are available for immediate sale in its present condition subject only to terms that are usual and customary for sales for such assets and the sale must be highly probable.

	2016	2015
Head Office-Manila	46,617,105	46,515,679
Accumulated Depreciation	5,616,777	4,428,679
	<b>41,000,328</b>	<b>42,087,000</b>
Allowance for Probable Losses	0	888,779
Net of allowance	41,000,328	41,198,221

## 16. INVESTMENT PROPERTY

Investment Property represent properties acquired by the Bank judicially in settlement of outstanding loans of delinquent borrowers. These are maintained by the Bank pending sale through public auction after a one-year redemption period as mandated by Bangko Sentral ng Pilipinas regulations.

	2016	2015
Head Office-Manila	243,893,515	90,136,572
Accumulated Depreciation	19,329,012	11,390,242
	224,564,503	78,746,330
Allowance for Probable Losses	4,375,493	6,981,400
Net of allowance	220,189,010	71,764,930

## 17. SALES CONTRACT RECEIVABLE

This account represents the amortized cost of assets acquired in settlement of loans through foreclosure or dacion in payment and subsequently sold on installment basis

whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

	2016	2015
Sales Contract Receivable	34,465,101	32,272,651
Less: Provision for Credit Losses	0	0
	34,465,101	32,272,651

## 18. OTHER ASSETS

This account is composed of the following:

	2016	2015 As restated
Accrued interest income from financial assets	74,431,389	59,468,886
Miscellaneous assets	70,377,335	57,266,821
Accounts Receivables	23,433,329	22,586,648
Prepaid Expenses	16,233,422	15,766,058
Other intangible assets – net	2,244,048	2,360,773
Stationery and supplies on hand	4,215,901	4,266,132
Documentary stamps on checks	1,715,095	2,780,288
Returned checks and other cash items	924,270	805,688
Other investments	153,333	153,333
Sundry debits	92,586	642,303
Shortages	0	481,850
	193,820,708	166,578,780
Other Assets – Allowance for Losses	(29,411,836)	(9,515,095)
	<b>164,408,872</b>	<b>157,063,685</b>

The Accounts Receivable account includes the amount of ₱4 million and ₱7.3 million misappropriated by the former Cashiers of Sorsogon and Tacloban Branches for which cases were already filed in court.

Payments for our ongoing LMS/GL and Deposit System projects amounting ₱51.16 million and ₱8.26 million, respectively, were temporarily lodge to Miscellaneous Assets account.

## 19. DEPOSIT LIABILITIES

	2016	2015
Domestic:		
Demand deposits	373,644,104	454,918,662
Savings deposits	6,210,047,257	7,523,427,281
Time Certificate of Deposits	496,327,514	296,965,169
Foreign:		
Savings deposits	2,301,048	2,496,119
Time certificate of deposits	2,641,321,146	2,487,453,853
	9,723,641,069	10,765,261,084

Domestic deposit liabilities earns annual fixed interest rates ranging range from 0.25 to 3.05 percent in 2016 and 2015. Foreign deposits range from 0.25 to 1.375 percent and from 0.25 to 1.5125 percent in 2016 and 2015, respectively.

## 20. BILLS PAYABLE

These are interbank term loans from other banks and non-bank financial institutions with quasi-banking authority, other than those payable on call/demand.

	2016	2015
Maybank	500,000,000	0
China Bank	150,000,000	0
<b>Net Amount</b>	<b>650,000,000</b>	

## 21. ACCRUED EXPENSES

This account represents:

	2016	2015 As restated
Accrued interest expense in financial liabilities	14,992,853	18,278,041
Fringe Benefits	13,641,796	10,456,346
Litigation / assets acquired	12,075,254	13,380,188
Other taxes and licenses	2,801,265	3,646,703
Rent	2,614,404	5,536,223
Security, clerical, messengerial and janitorial	2,019,078	3,311,511
Salaries and wages	1,245,352	14,091,642
Power, light and water	748,732	844,041

Postage, telephone, cables and telegrams	592,812	397,594
Repairs and maintenance	411,400	452,111
Fuel and lubricants	166,911	138,350
Fines, penalties and other charges	14,592	11,592
Management and other professional fees	2,092	803,017
Income tax payable	0	23,502,870
Others*	14,745,863	11,837,094
	<b>66,072,404</b>	<b>106,687,323</b>

\*Others include accruals for internet connection and subscriptions, PDIC Insurance, offsite storage services, disaster recovery collocation site services, preventive maintenance services for data center's UPS, air conditioning units and ATM units, card embossing services, travelling expenses, rental of PCSO with PPC Baguio, photocopy charges, advertising expenses, membership fees and representation expenses.

## 22. OTHER LIABILITIES

	2016	2015 As restated
Accounts payable – others	63,118,341	77,779,202
Withholding tax payable	4,412,558	4,784,669
SSS, PHIC, Employee Compensation and Pag-ibig Fund payable	1,039,313	887,762
Inter-office float items	482,192	2,734,414
Unclaimed balances	292,762	244,472
Miscellaneous liabilities	211,455	213,807
Sundry credits	55,960	11,063
Overages	10,828	17,175
	<b>69,623,409</b>	<b>86,672,564</b>

The Accounts Payable account represents overpayment on loans pending refund, loans payment pending posting, contributions payable to BIR, SSS, PHIC, Bancnet, delivered items of supplies and equipment not yet paid and others.

## 23. CAPITAL STOCK

The Bank is authorized to issue 10,000,000 shares at ₱100.00 par value. Total subscribed is 8,802,428 shares amounting to ₱880,242,883. Five million (5,000,000) shares were subscribed by Philippine Postal Corporation of which ₱440,000,000.00 was fully paid. Subscription receivable of ₱60,000,000.00 is still outstanding.

The Board of Directors of the Bank, through Board Resolution No. 2011-274, approved the issuance to the Republic of the Philippines of common shares of stock with par value equal to the cash balance of the Project Drive Fund amounting to ₱249,234,883 or equivalent to 2,492,348 shares. The National Government has consented to the treatment of the Fund as capital in the books of PPSBI per memorandum from the Executive Secretary of the Office of the President of the Philippines dated December 16, 2011. This Fund represents the outstanding balance from ₱500,000,000.00 previously released by the National Government to PPSBI for disbursement to the National Government's microfinance program for the transport sector.

The Project Drive Fund was subjected to special audit conducted by audit team created under Commission on Audit (COA) Office Order No. 2014-758 dated December 22, 2014 and COA Office Order No. 2015-258 dated April 23, 2015.

Additional issuance of common shares of stock for the National Government was made by PPSBI corresponding to the latest appraised value of parcel of land where Head Office is situated per Board Resolution No. 201-142 dated June 10, 2014. Total common shares of stock issued to the National Government as of December 31, 2016 is 3,902,428 shares or equivalent to ₱380,242,800.00.

## 24. UNREALIZED GAINS/LOSSES ON AFS FINANCIAL ASSETS

This account refers to the gains and losses from marking to market valuation of AFS securities which is booked on a daily basis.

## 25. RETAINED EARNINGS UNAPPROPRIATED

In consonance with PAS 8, the balance of this account as of December 31, 2015 were restated for prior period adjustments. The adjustments principally relate to reversal of accrued interest income, reversal of erroneous recordings, disallowances, reclassification of various accounts, recognition of expenses and the write-off of non-performing loans.

Retained earnings of the Bank as of December 31, 2015 have been restated as follows:

Particulars	Debit	Credit	Balance
Retained earnings, beg. FY 2016 before re restatement			143,279,499
Adjustments			
Prior period – refund of directors allowance	0	110,000	
	0	110,000	110,000
Restated retained earnings, beg			143,389,499
Net income before restatement			134,706,052
Adjustments:			
Interest Income	4,109,053	25,035	
Other income		71,533	
Additional income tax	13,422,438		
Depreciation on BPFEE	1,515,462	15,371	
Compensation and fringe benefits	11,087,158		
Supplies expense		45,750	
Write-off of non-performing loans	407,185		
Collection of payment on capital gain tax		247,211	
Reversal of capitalized interest charged on income	38,439,564		
	68,980,860	404,900	(68,575,960)

Particulars	Debit	Credit	Balance
Restated net income for FY 2015			66,130,092
Restated retained earnings, end			209,519,591

## 26. INCOME AND OTHER TAXES

Under Philippines tax laws, the Bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist principally of gross receipt tax (GRT) and documentary stamp tax (DST)

Income taxes include the corporate income tax and final taxes paid at the rate of 20 percent, which is a final withholding tax on gross interest income from government securities.

Interest allowed as a deductible expense is reduced to an amount equivalent to 33 percent of interest income subject to final tax.

	2016	2015
Documentary Stamp Taxes	33,250,701	30,661,587
Percentage Taxes (2551M)	25,427,259	30,676,934
Income Taxes on Compensation (1601C)	24,171,931	21,559,837
Final Income Taxes (1602)	21,825,586	19,686,434
VAT and Other Percentage Taxes (1600)	5,156,209	6,359,668
Annual / Quarterly Income Taxes (1702)	4,926,109	32,196,992
Creditable Income Taxes (1601E)	4,046,943	4,331,479
Annual Registration	12,500	12,500
	<b>118,817,238</b>	<b>145,482,431</b>

## 27. MISCELLANEOUS INCOME

This account represents additional interest and penalty charges on loans and other fees collected by the bank. Penalties on past due

loans amounted to ₱42.428 million and others ₱9.828 million.

## 28. OPERATING EXPENSES

	2016	2015
Compensation and fringe benefits	214,010,367	200,710,507
Provision for probable losses	57,886,486	58,178,718
Rent	33,313,395	29,963,445
Taxes and Licenses	32,005,318	35,156,546
Information Technology	28,984,278	19,403,142
Insurance	28,429,005	22,303,200
Depreciation and amortization	27,519,473	26,188,991
Security, Clerical, Mess. & Janitorial Services	19,728,490	20,859,769
Documentary Stamps Used	14,495,390	13,058,875
Management & Other Professional Fees	13,013,125	9,595,151
Representation & Entertainment	12,459,711	13,113,999
Power, Light and Water	10,971,438	11,283,151
Travelling Expense	7,048,730	6,582,679
Stationery and Supplies Used	5,785,896	6,364,098
Repairs and Maintenance	5,724,742	5,881,212
Postage, Telephone, Cable and Telegram	4,921,759	4,806,426
Litigation Expense	4,108,871	3,246,582
Trainings and Seminars	3,820,793	2,754,063
Fees and commission	2,770,160	2,788,876
Supervision Fees	2,273,784	2,028,987
Fuels and Lubricants	1,756,946	1,927,378
Membership fees and dues	1,293,424	834,273
Advertising and Publicity	750,260	1,430,758
Fines, Penalties and Other Charges	492,900	316,509
Impairment Loss	343,806	85,400
Periodicals and Magazines	116,227	113,490
Donations and Charitable Contributions	64,089	213,015
Bad debt expenses	0	595,984
Miscellaneous expenses	742,020	1,064,931

## 29. BASIC QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

	2016	2015
	(in percentage)	
Return on Average Equity	-1.13	13.11

	2016	2015
Return on Average Assets	-0.10	1.23
Net Interest Margin	3.70	4.96
Risk Based Capital Adequacy Ratio	5.31	11.04

### 30. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the bank has loans, deposits and other transactions with its related parties and with some directors, officers and related interest (DOSRI).

The loan granted by the bank to its mother company, Philippine Postal Corporation (PPC) in December 2006 and July 31, 2008 has an outstanding balance of 45.38 million as of December 31, 2016. The loan is secured by REM and a deposit holdout of peso and dollar deposits with the bank. Payments of monthly amortizations were effected thru offsetting of the building rentals and direct payments.

The total DOSRI loan as of year ended 2016 is P49.354 million which were fully secured and on a current status which represents .84 percent of the total loan portfolio.

### 31. COMMITMENTS AND CONTINGENT LIABILITIES

The bank is contingently liable for lawsuits or claims filed by third parties, which are either pending decision by the courts or under negotiations, the outcomes of which are not determinable at balance sheet date.

### 32. SUBSEQUENT EVENTS

Investment in notes by the Quedan and Rural Credit Guarantee Corporation (Quendancor) for the bank’s Agri-agra compliance is now under negotiation for the replacement by Quendancor Restructured Notes. This was lodged under the Unquoted Debt Securities Classified as Loans account and was fully provided with allowance for

losses and accruals for the litigation expenses.

### 33. AUTHORITY TO ISSUE FINANCIAL STATEMENTS

As per Stockholder’s Resolution No. 2017-72 entitled “CONFIRMATION OF THE 2016 ANNUAL REPORT of the PPSBI”, which contains its 2016 Financial Statements, was presented to and duly confirmed and noted by the Board of Directors during the 6<sup>th</sup> Regular Meeting of the Board of Directors of Philippine Postal Savings Bank, Inc. held on April 25, 2017.

### 34. EVENTS AFTER THE REPORTING DATE

On March 14, 2017, the Board of Directors accepted and approved the resignation of Mr. Cesar N. Sarino as President/CEO of the Philippine Postal Savings Bank, Inc. Consequently the Board of Directors appointed Mr. Renato G. Eje, First Vice President of Land Bank of the Philippines as Officer-in Charge effective immediately.



# Capital Structure and Capital Adequacy

As of December 31, 2016 (in Philippine Peso)

Item	Nature of Item	Amount	
<b>A.</b>	<b>Calculation of Qualifying Capital</b>		
A.1	Net Tier 1 Capital		536.987
A.2	Net Tier 2 Capital		37.829
A.3	Total Qualifying Capital <i>[Sum of A.1 and A.2]</i>		574.816
<b>B.</b>	<b>Calculation of Risk-Weighted Assets</b>		
B.1	Total Credit Risk-Weighted Assets <i>[B.1(d) minus B.1(h)]</i>		9,653.889
(a)	Risk-Weighted On-Balance Sheet Assets	10,156.416	
(b)	Risk-Weighted Off-Balance Sheet Assets	0.000	
(c)	Counterparty Risk-Weighted Assets	0.000	
(d)	Total Credit Risk Weighted Assets <i>[Sum of B.1(a), B.1(b) and B.1(c)]</i>	10,156.416	
(e)	Deductions from Total Credit Risk-Weighted Assets		
(f)	General Loan Loss Provision (in excess of the amount permitted to be included in upper Tier 2 capital) <i>[Part III.1, Item G.(1)(b) minus Part II, Item B.1 (7)]</i>	0.000	
(g)	Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	502.527	
(h)	Total Deductions <i>[Sum of B.1(f) and B.1(g)]</i>	502.527	
B.2	Total Operational Risk-Weighted Assets		829.457
B.3	Total Market Risk-Weighted Assets		0.000
B.4	Total Risk-Weighted Assets <i>[Sum of B.1, B.2 and B.3]</i>		10,483.346
<b>C.</b>	<b>RISK-BASED CAPITAL ADEQUACY RATIO <i>[A.3 divided by B.4 multiply by 100]</i></b>		<b>5.483</b>

Item	Nature of Item	Amount	
<b>A.</b>	<b>Tier 1 (Core plus Hybrid) Capital</b>		
A.1	<b>Core Tier 1 Capital</b>		
(1)	Paid up common stock		820.243
(2)	Deposit for common stock subscription		
(3)	Paid-up perpetual and non-cumulative preferred stock		
(4)	Deposit for perpetual and non-cumulative preferred stock subscription		
(5)	Additional paid-in capital		
(6)	Retained earnings		209.520
(7)	Undivided profits		9.751
(8)	Net gains on fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities		
(9)	Cumulative foreign currency translation		
(10)	Minority interest in subsidiary financial allied undertakings (i.e., RBs and venture capital corporations (VCCs) for TBs, and RBs for Coop Banks) which are less than wholly-owned (for consolidated basis) <sup>1/</sup>		
(11)	Sub-total [Sum of A.1 (1) to A.1 (10)]		1,039.514
A.2	<b>Deductions from Core Tier 1 Capital</b>		
(1)	Common stock treasury shares (for consolidated basis)		
(2)	Perpetual and non-cumulative preferred stock treasury shares (for consolidated basis)		
(3)	Net unrealized losses on available for sale equity securities purchased		
(4)	Unbooked valuation reserves and other capital adjustments based on the latest ROE as approved by the Monetary Board	502.527	
(5)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses		
(6)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses		
(7)	Deferred tax asset, net of deferred tax liability <sup>2/</sup>		
(8)	Goodwill, net of allowance for losses <sup>3/</sup>		
(9)	Total Deductions [Sum of A.2 (1) to A.2 (8)]		502.527
A.3	<b>Total Core Tier 1 Capital [A.1 (11) minus A.2 (9)]</b>		536.987
A.4	<b>Hybrid Tier 1 Capital</b>		
(1)	Perpetual preferred stock		
(2)	Perpetual unsecured subordinated debt		
(3)	Total Hybrid Tier 1 Capital [Sum of A.4 (1) and A.4 (2)]		0.000
(4)	Eligible Hybrid Tier 1 Capital [limited to 17.65% of Total Core Tier 1 Capital (Item A.3)]		0.000
A.5	<b>Total Tier 1 Capital [Sum of A.3 and A.4 (4)]</b>		536.987

<b>B.</b>	<b>Tier 2 (Supplementary) Capital</b>		
B.1	<b>Upper Tier 2 Capital</b>		
(1)	Paid-up perpetual and cumulative preferred stock		
(2)	Deposit for perpetual and cumulative preferred stock subscription		
(3)	Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption		
(4)	Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption		
(5)	Appraisal increment reserve – bank premises, as authorized by the Monetary Board		
(6)	Net unrealized gains on available for sale equity securities purchased (subject to a 55% discount)		
(7)	General loan loss provision [limited to 1.00% of total credit risk-weighted assets computed per Part I, Item B.1(d)]		37.829
(8)	Unsecured subordinated debt with a minimum original maturity of at least 10 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)		
(9)	Hybrid Tier 1 Capital (in excess of the max allowable 15% limit of total Tier 1 capital) [A.4 (3) minus A.4 (4)]		0.000
(10)	Sub-total [Sum of B.1 (1) to B.1 (9)]		37.829
B.2	<b>Deductions from Upper Tier 2</b>		
(1)	Perpetual and cumulative preferred stock treasury shares (for consolidated basis)		
(2)	Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption (for consolidated basis)		
(3)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption		
(4)	Net losses in fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities		
(5)	Total Deductions [Sum of B.2 (1) to B.2 (4)]		0.000
B.3	<b>Total Upper Tier 2 Capital [B.1 (10) minus B.2 (5)]</b>		37.829

<b>B.4</b>	<b>Lower Tier 2 Capital</b>		
(1)	Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)		
(2)	Deposit for limited life redeemable preferred stock subscription without the replacement requirement upon redemption		
(3)	Unsecured subordinated debt with a minimum original maturity of at least 5 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)		
(4)	Sub-total <i>[Sum of B.4 (1) to B.4 (3)]</i>		0.000
<b>B.5</b>	<b>Deductions from Lower Tier 2</b>		
(1)	Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption (for consolidated basis)		
(2)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor)		
(3)	Total Deductions <i>[Sum of B.5 (1) and B.5 (2)]</i>		0.000
<b>B.6</b>	<b>Total Lower Tier 2 Capital</b> <i>[B.4 (4) minus B.5 (3)]</i>		0.000
<b>B.7</b>	<b>Eligible Amount of Lower Tier 2 Capital</b> <i>(limited to 50% of total Tier 1 capital per Item A.5)</i>		0.000
<b>B.8</b>	<b>Total Tier 2 Capital</b> <i>[Sum of B.3 and B.7]</i>		37.829
<b>B.9</b>	<b>Eligible Amount of Tier 2 Capital</b> <i>(limited to 100% of total Tier 1 capital per Item A.5)</i>		37.829
<b>C.</b>	<b>Gross Qualifying Capital</b> <i>(Sum of A.5 and B.9)</i>		574.816
(1)	Total Tier 1 Capital <i>(Item A.5)</i>	536.987	
(2)	Total Tier 2 Capital <i>(Item B.9)</i>	37.829	

<b>D.</b>	<b>Deductions from Tier 1 and Tier 2 Capital</b>		
(1)	Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis)		
(2)	Investments in other regulatory capital instruments of unconsolidated subsidiary RBs for Coop Banks (for solo basis)		
(3)	Investments in equity of unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases)		
(4)	Significant minority investments (20%-50% of voting stock) in banks and other financial allied undertakings (for both solo and consolidated bases)		
(5)	Reciprocal investments in equity/other regulatory capital instruments of other banks/quasi-banks/enterprises		
(6)	Total Deductions <i>[Sum of D (1) to D (5)]</i>		0.000
<b>E.</b>	<b>Net Tier 1 and Tier 2 Capital</b>		
E.1	Net Tier 1 Capital <sup>4/</sup> <i>{C (1) minus [D (6) multiply by 50%]}</i>	536.987	
E.2	Net Tier 2 Capital <sup>4/</sup> <i>{C (2) minus [D (6) multiply by 50%]}</i>	37.829	
<b>F.</b>	<b>Total Qualifying Capital</b> <i>[C minus D (6)]</i>		574.816

<sup>1/</sup> Provided that a bank shall not use minority interests in the equity accounts of consolidated subsidiaries as an avenue for introducing into its capital structure elements that might not otherwise qualify as Tier 1 capital or that would, in effect, result in an excessive reliance on preferred stock within Tier 1.

<sup>2/</sup> Provided that the conditions to offset under PAS 12 are met and that any excess of deferred tax liability over deferred tax assets (i.e., net deferred tax liability) shall not be added to Tier 1 capital.

<sup>3/</sup> This shall include those relating to unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks (on solo basis) and unconsolidated non-financial allied undertakings (on solo and consolidated bases).

<sup>4/</sup> The amount to be deducted from Tier 2 capital shall be limited to its balance and any excess thereof shall be deducted from Tier 1 capital.

**PART III.1. RISK-WEIGHTED ON-BALANCE SHEET**
**ASSETS** (Amounts in ₱0.000 million)

Item	Nature of Item	Net Carrying Amount <sup>1/</sup> (1)	Risk Weight (in %) (2)	Risk Weighted Amount (3) = (1) * (2)
A.	0% Risk Weight –			
(1)	Cash on hand (including foreign currency notes and coins on hand acceptable as international reserves)	97.237		
(2)	Peso denominated claims on or portions of claims guaranteed by or collateralized by peso-denominated securities issued by the Philippine National Government and the BSP			
	(a) Due from BSP	1,849.833		
	(b) Financial assets designated at fair value through profit or loss			
	(c) Available for sale financial assets	547.538		
	(d) Held-to-maturity financial assets			
	(e) Unquoted debt securities classified as loans	50.086		
	(f) Loans and receivables			
	(g) Loans and receivables arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions	78.892		
	(h) Others			
(3)	Claims on or portions of claims guaranteed by or collateralized by securities issued by central governments and central banks of foreign countries with the highest credit quality			
(4)	Claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks with the highest credit quality			
(5)	Loans to the extent covered by hold-out on, or assignment of, deposits/deposit substitutes maintained with the lending bank	90.031		
(6)	Loans or acceptances under letters of credit (LCs) to the extent covered by margin deposits			
(7)	Peso denominated special time deposit loans to the extent guaranteed by Industrial Guarantee and Loan Fund (IGLF)			
(8)	Peso denominated real estate mortgage loans to the extent guaranteed by the Home Guaranty Corporation (HGC)			
(9)	Peso denominated loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines (TIDCORP)			
(10)	Sub-total [Sum of A (1) to A (9)]	2,713.617	0	0.000

B.	20% Risk Weight -			
(1)	Checks and other cash items (including foreign currency checks and other cash items denominated in currencies acceptable as international reserves)	0.644		
(2)	Claims on or portions of claims guaranteed by or collateralized by securities issued by local government units (LGUs) with the highest credit quality			
(3)	Claims on or portions of claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality			
(4)	Claims on or portions of claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality			
(5)	Claims on or portions of claims guaranteed by foreign incorporated banks with the highest credit quality			
(6)	Interbank call loans			
(7)	Claims on or portion of claims guaranteed by Philippine incorporated private enterprises, including claims on government corporations and MSME not qualifying under highly diversified loan portfolio definition, with the highest credit quality			
(8)	Claims on or portion of claims guaranteed by foreign incorporated private enterprises, including claims on government corporations, with the highest credit quality			
(9)	Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) subject to the conditions enumerated in Circular No. 713 dated 14 February 2011			
(10)	Sub-total [Sum of B (1) to B (9)]	0.644	20	0.129
C.	50% Risk Weight -			
(1)	Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are not classified as non-performing	97.632		
(2)	Foreign currency denominated claims on or portions of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government & the BSP.			
(3)	Sub-total [Sum of C (1) to C (2)]	97.632	50	48.816
D.	75% Risk Weight -			
(1)	Qualified micro, small and medium enterprise (MSME) loan portfolio		75	0.000
E.	100% Risk Weight -			
(1)	Non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower.	5.806	100	5.806

F.	150% Risk Weight –				
(1)	All non-performing loans (except non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower), all non-performing sales contract receivables, and all non-performing debt securities		2,125.867	150	3,188.801
(2)	Real and other properties acquired and Non-current assets held for sale, net of allowance for losses				
	Year 2012			115	0.000
	Year 2013			130	0.000
	Year 2014 onwards		329.509	150	494.264
G.	100 % Risk Weight –				
(1)	Other Assets				
	(a)	Total Assets per Balance Sheet	11,666.288		
	(b)	General Loan Loss Provisions per Balance Sheet	37.829		
	(c)	Total Exposures excluding Other Assets [Sum of A(10), B(10), C(3), D(1), E(1), F(1) and F(2)]	5,273.075		
	(d)	Sub-total [Sum of G(1)(a) and G(1)(b) minus G(1)(c)]	6,431.042		
(2)	Deductions from Other Assets				
	(a)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses [refer to Part II. Item A.2 (5)]	0.000		
	(b)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses [refer to Part II. Item A.2 (6)]	0.000		
	(c)	Deferred tax asset, net of deferred tax liability [refer to Part II. Item A.2 (7)]	0.000		
	(d)	Goodwill, net of allowance for losses [refer to Part II. Item A.2 (8)]	0.000		
	(e)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption [refer to Part II. Item B.2 (3)]	0.000		
	(f)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor) [refer to Part II. Item B.5 (2)]	0.000		

	(g)	Investment in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks, after deducting related goodwill, if any (for solo basis) <i>[refer to Part II. Item D (1)]</i>	0.000		
	(h)	Investments in other regulatory capital instruments of unconsolidated RBs for Coop Banks (for solo basis) <i>[refer to Part II. Item D (2)]</i>	0.000		
	(i)	Investment in equity of subsidiary non-financial allied undertakings, after deducting related goodwill, if any (for both solo and consolidated bases) <i>[refer to Part II. Item D (3)]</i>	0.000		
	(j)	Significant minority investments (20%-50% of voting stock) in banks and other financial allied undertakings (for both solo and consolidated bases) <i>[refer to Part II. Item D (4)]</i>	0.000		
	(k)	Reciprocal investments in equity/other regulatory capital instruments of other banks/quasi-banks/enterprises <i>[refer to Part II. Item D (5)]</i>	0.000		
	(l)	Net accumulated market gains/(losses) on available for sale debt securities purchased	(36.088)		
	(m)	Financial Assets Held for Trading	48.529		
	(n)	Derivatives with Positive Fair Value Held for Hedging			
	(o)	Total Deductions <i>[Sum of G(2)(a) to G(2)(n)]</i>	12.441		
(3)		Net Other Assets <i>[G (1)(d) minus G (2)(o)]</i>	6,418.60 1	100	6,418.60 1
H.		TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS [Sum of A(10), B(10), C(3), D(1), E(1), F(1), F(2) and G(3) ]			10,156.4 16

<sup>1/</sup> This shall refer to the outstanding balance of the account inclusive of unamortized discount/(premium) and accumulated market gains/(losses), and net of allowance for credit losses, except that for available for sale debt securities, any accumulated market gains/(losses) shall be deducted/added back.

**PART III.2 RISK-WEIGHTED OFF-BALANCE SHEET ASSETS** (Amounts in P0.000 million)

Item	Nature of item	Notional Principal Amount	Credit Conv. Factor (CCF)	Credit Equivalent Amount  (3) =(1)*(2)	Distribution of Credit Equivalent Amount According to Risk Weights <sup>1/</sup>				Total  (Sum of 4 to 7)
					0%	20%	75%	100%	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	
A.	Direct credit substitutes (.e.g. general guarantees of indebtedness and acceptances)								
	(1) Guarantees issued other than shipside bonds/airway bills		100%	0.000					
	(2) Financial standby letters of credit - domestic (net of margin deposit)		100%	0.000					
	(3) Financial standby letters of credit - foreign (net of margin deposit)		100%	0.000					
	(4) Sub-total [Sum of A (1) to A (3)]	0.000		0.000	0.000	0.000		0.000	
	(5) Risk-weighted amount [ A(4) x applicable risk weight]				0.000	0.000		0.000	0.000
B.	Transaction-related contingencies (e.g., performance bonds, bid bonds, warrantees and stand-by LCs related to particular transactions)								
	(1) Performance Standby LCs – domestic (net of margin deposit) established as a guarantee that a business transaction will be performed		50%	0.000					
	(2) Performance Standby LCs – foreign (net of margin deposit) established as a guarantee that a business transaction will be performed		50%	0.000					
	(3) Other Commitments e.g. formal standby facilities and credit lines with maturity of more than one year		50%	0.000					
	(4) Sub-total [Sum of B (1) to B (3)]	0.000		0.000	0.000	0.000		0.000	
	(5) Risk-weighted amount [ B (4) x applicable risk weight]				0.000	0.000		0.000	0.000

C.	Trade-related contingencies arising from movement of goods (e.g., documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one (1) year								
(1)	Trade related guarantees – shipside bonds/airway bills		20%	0.000					
(2)	Trade related guarantees – LCs confirmed		20%	0.000					
(3)	Sight LCs - domestic (net of margin deposit)		20%	0.000					
(4)	Sight LCs - foreign (net of margin deposit)		20%	0.000					
(5)	Usance LCs - domestic (net of margin deposit)		20%	0.000					
(6)	Usance LCs - foreign (net of margin deposit)		20%	0.000					
(7)	Deferred LCs - domestic (net of margin deposit)		20%	0.000					
(8)	Deferred LCs - foreign (net of margin deposit)		20%	0.000					
(9)	Revolving LCs - domestic (net of margin deposit) arising from movement of goods and/or services		20%	0.000					
(10)	Revolving LCs - foreign (net of margin deposit) arising from movement of goods and/or services		20%	0.000					
(11)	Other commitments with an original maturity of up to 1 year		20%	0.000					
(12)	Sub-total [Sum of C (1) to C (11)]	0.000		0.000	0.00 0	0.00 0	0.00 0	0.000	

	(13)	Risk-weighted amount [ C (12) x applicable risk weight]				0.00 0	0.000	0.0 00	0.000	0.00 0
D.		Other commitments which can be unconditionally cancelled at any time by the bank without prior notice								
	(1)	Credit card lines		0%						
E.		Items not involving credit risk								
	(1)	Late deposits/payments received	8.012	0%						
	(2)	Inward bills for collection		0%						
	(3)	Outward bills for collection		0%						
	(4)	Travelers' checks unsold		0%						
	(5)	Trust department accounts		0%						
	(6)	Items held for safekeeping/custodianship	0.005	0%						
	(7)	Items held as collaterals	0.003	0%						
	(8)	Deficiency claims receivable		0%						
	(9)	Others (Please specify)	2.791	0%						
		-	2.791	0%						
		-								
	(10)	Sub-total [Sum of E (1) to E (9)]	10.811							
F.		Total Notional Principal Amount [Sum of A (4), B (4), C (12), D (1), E (10)]	10.811							
G.		TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ASSETS [Sum of A (5), B (5) and C (13)]								0.00 0

<sup>1/</sup> Assign the appropriate risk weight according to the obligor, or if relevant, the qualified guarantor or the nature of the collateral.

**PART III.3 COUNTERPARTY RISK-WEIGHTED ASSETS** (Amounts in P0.000 million)

Item	Nature of item <sup>1/</sup>	Notional Amount	Current Credit Exposure (M-to-M valuation, if positive)	Appropriate Potential Future CCF	Potential Future Credit Exposure <sup>2/</sup>	Credit Equivalent Amount <sup>3/</sup>	Distribution of Credit Equivalent Amount According to Risk Weights			Total
							0%	20%	100%	
		(1)	(2)	(3)	(4) = (1)*(3)	(5) = (2)+(4)	(6)	(7)	(8)	(Sum of 6 to 8)
Derivative Exposures <sup>4/</sup>										
A.	Interest Rate Contracts									
	(1) With a residual maturity of 1 year or less									
	1.a Interest Rate Forwards			0.00%	0.00	0.00				
	1.b Interest Rate Swap			0.00%	0.00	0.00				
	(2) With a residual maturity of more than 1 year to 5 years									
	2.a Interest Rate Forwards			0.50%	0.00	0.00				
	2.b Interest Rate Swap			0.50%	0.00	0.00				
	(3) With a residual maturity of more than 5 years									
	3.a Interest Rate Forwards			1.50%	0.00	0.00				
	3.b Interest Rate Swap			1.50%	0.00	0.00				
	(4) Sub-total [ Sum of 1.a to 3.b ]	0.000	0.000		0.00	0.00	0.00	0.00	0.00	
	(5) Risk-weighted amount [ (4) x applicable risk weight ]						0.00	0.00	0.00	0.000
B.	Exchange Rate Contracts									
	(1) With a residual maturity of 1 year or less									
	1.a Forward Foreign Exchange Contracts			1.00%	0.00	0.00				
	1.b Currency Swap			1.00%	0.00	0.00				

	(2) With a residual maturity of more than 1 year to 5 years									
	2.a Forward Foreign Exchange Contracts			5.0 0%	0.00 0	0.00 0				
	2.b Currency Swap			5.0 0%	0.00 0	0.00 0				
	(3) With a residual maturity of more than 5 years									
	3.a Forward Foreign Exchange Contracts			7.5 0%	0.00 0	0.00 0				
	3.b Currency Swap			7.5 0%	0.00 0	0.00 0				
	(4) Sub-total [ Sum of 1.a to 3.b ]	0.000	0.000		0.00 0	0.00 0	0.0 00	0.0 00	0.0 00	
	(5) Risk-weighted amount [ (4) x applicable risk weight ]						0.0 00	0.0 00	0.0 00	0.000
C.	Total [Sum of A (4) and B (4)]	0.000	0.000		0.00 0	0.00 0				
D.	TOTAL COUNTERPARTY RISK-WEIGHTED ASSETS [Sum of A (5) and B (5)]									0.000

- <sup>1/</sup> Provide additional line items, where necessary. (Refer to Part III.4 of the CAR Reporting Template of U/KBs and their subsidiary banks and quasi-banks under Circular No. 574.)
- <sup>2/</sup> No potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps; i.e. the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.
- <sup>3/</sup> The credit equivalent amount shall be assigned the appropriate risk weight according to the obligor, or if relevant, the qualified guarantor or the nature of collateral.
- <sup>4/</sup> This shall exclude instruments which are traded on exchange where they are subject to daily receipt and payment of cash variation margin and exchange rate contracts with original maturity of 14 calendar days or less.

#### PART IV. OPERATIONAL RISK-WEIGHTED ASSETS

(Amounts in ₱0.000 million)

Item	Nature of Item	Gross Income			Average <sup>1/</sup>
		Year 3	Year 2	Last Year	
A. Net interest income					
A.1	Interest Income	511.582	613.726	668.855	
A.2	Interest Expense	106.965	101.003	135.533	
A.3	Sub-total (A.1 minus A.2)	404.617	512.723	533.322	
B. Other non-interest income					
B.1	Dividend Income				
B.2	Fees and Commissions Income	45.173	35.798	26.579	
B.3	Net Gain/loss on Financial Assets and Liabilities Held for Trading	0.081	0.002	0.029	
B.4	Net Gain/loss on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss				
B.5	Net Profit/loss on Foreign Exchange	0.325	0.018	0.069	
B.6	Net Gain/loss on Fair Value Adjustment in Hedge Accounting				
B.7	Other Income	22.148	18.841	59.189	
B.8	Sub-total (Sum of B.1 to B.7)	67.727	54.659	85.866	
C.	Gross Income (Sum of A.3 and B.8)	472.344	567.382	619.188	552.971
D.	Capital Charge [C (average) multiply by Capital Charge Factor of 12% <sup>2/</sup> ]				66.357
E.	Adjusted Capital Charge (D multiply by 125%)				82.946
F.	TOTAL OPERATIONAL RISK-WEIGHTED ASSETS (E multiply by 10)				829.457

<sup>1/</sup> When calculating the average, include only the positive annual gross income; hence, figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator.

<sup>2/</sup> The capital charge shall be applied over a 3-year period, i.e., 4% capital charge shall be applied by 1 January 2012, 8% by 1 January 2013, and 12% by 1 January 2014.

**PART V. MARKET RISK-WEIGHTED ASSETS** (Amounts in P0.000 million)

Item	Nature of Item	Amount
A.	Using Standardized Approach	
A.1	Interest Rate Exposures	0.000
A.2	Equity Exposures	0.000
A.3	Foreign Exchange Exposures	0.000
A.4	Options	
A.5	Sub-total (Sum of A.1 to A.4)	0.000
B.	Using Internal Models Approach	
C.	TOTAL MARKET RISK-WEIGHTED ASSETS <sup>1/</sup> (Sum of A.5 and B)	0.000

- 1/ A.5 = 0, for banks that calculate capital charge for all its risk exposures, covering both general market and specific risks, using the internal models approach. if computation of specific risk charge is not yet incorporated in the model, report in items A.1 and A.2 above the specific risk charge only.  
 B = 0, for banks that calculate capital charge for all its risk exposures using the standardized approach.

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# Products and Services

## DEPOSIT PRODUCTS

- ☛ Passbook Savings Account
- ☛ Postalcash ATM Savings Account
- ☛ Checking Account
- ☛ Premium Savings Plan
- ☛ Peso Time Deposit
- ☛ US Dollar Savings Deposit
- ☛ US Dollar Time Deposit

## REGULAR LOANS

- ☛ Large Scale Enterprise Loan
- ☛ Small and Medium Enterprise Loan
- ☛ LGU Loan
- ☛ Rediscounting Facility
- ☛ Contract-to-Sell (CTS) Financing
- ☛ Back-to-Back Loan
- ☛ Water District Loan Program

## CONSUMER LOANS

- ☛ Salary Loans
- ☛ Educational Loan
- ☛ SSS Pensioners' Loan
- ☛ Car Loans
- ☛ Motorcycle Loan
- ☛ Housing Loans
- ☛ Property Maximizer
- ☛ Special Vehicle Financing

## MICROFINANCE FACILITIES

- ☛ Wholesale Microfinance Facility
- ☛ Arangkada Pasada
- ☛ Agricultural Production Loans
- ☛ Extended Barangay Microfinance Facility

## TREASURY PRODUCTS

- ☛ Treasury Bills
- ☛ Treasury Notes
- ☛ Retail Treasury Bonds

## CASH MANAGEMENT SERVICES

- ☛ Deposit pick-up service
- ☛ Payroll services
- ☛ Participating bank of SSS for Sickness, Maternity and Employees Compensation (SMEC)
- ☛ Accredited Collecting Bank of Bureau of Treasury, PhilHealth and SSS

## OTHER PRODUCTS

- ☛ Microfinance Products
  - Micro Loans
  - Micro Deposits
  - Micro Insurance Program
- ☛ Remittance Product
- ☛ Other Services
  - Safety deposit box facilities
  - Sale of acquired assets

## **DESCRIPTION OF PRODUCTS AND SERVICES**

### **DEPOSIT PRODUCTS**

#### **Passbook Savings Account**

A Savings Deposit-Regular -Passbook Account is the traditional deposit account that allows you to save with fixed interest rate. All financial transactions are recorded in the Passbook given during the time of opening. All transactions (deposits or withdrawals) are done via over-the-counter

#### **Postalcash ATM Savings Account**

This is a type of a Savings Deposit Account that allows you to save and earn a fixed interest rate and enjoy a 24-hour banking convenience with the use of ATM card. Clients can withdraw anytime thru Bancnet, Megalink and Expressnet ATM nationwide. Clients can also avail of the Bancnet- On-line facilities thru the use of their ATM card

#### **Checking Account**

This is a non-interest earning deposit account that allows withdrawal through issuance of a check.

#### **Premium Savings Plan**

This is an interest-bearing deposit account that entitles the client to a premium over savings account interest rate. Interest rate is determined based on the amount and term of deposit.

Minimum term is 30 days and maximum of 360 days. Minimum balance required is ₱10,000 for Personal/Individual Account and ₱100,000 for Corporate/Government Account.

#### **Peso Time Deposit**

A form of deposit earning an interest rate higher than savings account rate. Interest rate is determined based on the amount and term of deposit. This account is withdrawable at maturity and is evidenced by a Certificate of Time Deposit

#### **US Dollar Savings Deposit**

This is an interest-bearing US Dollar savings account whose transactions are recorded in a passbook. It can be individual or joint account.

#### **US Dollar Time Deposit**

A form of US Dollar deposit earning an interest rate higher than savings account rate. Interest rate is determined based on the amount and term of deposit. This account is withdrawable at maturity and is evidenced by a Certificate of Time Deposit

### **REGULAR LOANS**

#### **Large Scale Enterprise Loan**

Large-Scale Enterprise Loan is a financing facility intended to provide a wider scale of lending opportunities to Large-Scale Enterprises to support the government's thrust towards accelerating countryside economic growth and development.

#### **Small and Medium Enterprise Loan**

SME Loan is a financing facility intended to provide a wider scale of lending opportunities to Small and Medium Scale Enterprises (SMEs) to support the government's thrust towards accelerating countryside economic growth and development.

#### **LGU Loan**

LGU (Local Government Unit) Loan is a financing facility that aims to support the government's thrust towards accelerating countryside economic growth and development by financing local infrastructure and other socio-economic development projects in accordance with the approved local development plan and public investment program of Local Government Units (LGUs).

#### **Rediscounting Facility**

Rediscounting Facility is a credit facility intended to supplement the operating capital of Accredited Financial Institutions (AFIs) in delivering timely and adequate credit.

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**Contract-to-Sell (CTS) Financing**

CTS (Contract-To-Sell) Financing is a facility intended to refinance the Developer's CTS receivables from its existing project/s and institute wholesale acquisition of accounts for conversion to retail accounts. Also, for the purpose of accelerating project development and sale

**Back-to-Back Loan**

Back-to-Back Loan or Loan against Deposit Hold-Out is a facility extended to PPSB depositors for their personal/ business financing needs. This type of loan facility is considered non-risk since the loan is covered and secured by deposit duly assigned by the borrower in favor of PPSB. For this purpose, PPSB shall be empowered by the depositor, in event of default in the payment of all or any part of the loan, to withdraw from the deposit and apply an amount equal to the sum of such defaulted and unpaid amount.

**Water District Loan Program**

A loan program for Water Districts to finance the construction of water systems, purchase of equipment, building construction and refinancing. This loan program is in partnership with the LWUA

## CONSUMER LOANS

**Salary Loans**

Salary Loan is a financing facility extended to eligible employees of Government and Private Institutions, intended for their consumption and other personal needs.

**Educational Loan**

Educational Loan is an additional facility extended to eligible employees under PPSB's Salary Loan Program, purposely to assist in their education needs (e.g. tuition and matriculation fees, books and uniforms). Eligible dependents of the employees may also avail of this financial assistance

**SSS Pensioners' Loan**

Pensioner Loan is a loan facility extended to eligible pensioners of the Social Security System (SSS) where payments shall be made via automatic debit against their Savings Deposit account maintained with Postbank

**Car Loans**

Car Loan is a financing facility extended to selected clients for the acquisition of brand new car/ vehicle

**Motorcycle Loan**

Motorcycle Loan is a financing facility extended to employed or self-employed individuals for the acquisition of motorcycle, for personal or business use.

**Housing Loans**

Housing Loan is a financing facility that aims to support the government's thrust toward accelerating economic growth and development by offering affordable housing program to eligible individuals.

**Property Maximizer**

Property Maximizer is a multi-purpose loan facility extended to qualified clients for their personal financing needs. The loan can be used to meet the borrower's cash flow needs as well as for investment activities.

**Special Vehicle Financing Policy Guidelines**

Special Vehicle Financing is a loan facility extended to eligible officers of government and private institutions for personal and business use.

Under this program, PPSB shall finance one hundred percent (100%) cost of the car

## MICROFINANCE FACILITIES

**Wholesale Microfinance Facility**

Wholesale Microfinance Facility is a credit facility extended to Microfinance Institutions (MFIs) and Cooperatives intended for re-lending to eligible borrowers. Said facility aims to alleviate

poverty and provide financial assistance to small entrepreneurs who typically lack collateral to create sustainable living, through MFIs with verifiable credit history.

For this purpose, Micro-Enterprises shall be defined as any business enterprise engaged in industry, agribusiness and/or services whose total assets, inclusive of those arising from loans, have the value of ₱3,000,000 and below. Alternately, a business entity may also be classified as Micro-Enterprise if it has less than nine (9) employees.

**Arangkada Pasada**

Arangkada Pasada is a special financing facility extended to transport cooperatives/ associations/ groups to be used either for projects that would benefit members of transport sectors or for re-lending to eligible members. The program is also open to drivers and conductors of different transport cooperatives their spouses and immediate family members

**Agricultural Production Loans**

Production Loan Facility is a credit facility extended to individual small farmers and/ or conduit financial institutions (e.g. Microfinance Institutions (MFIs), Cooperatives, Associations) intended for lending and re-lending to eligible borrowers. Said facility aims to provide credit financing support to marginalized farmers that will promote productivity and enabling them to meet the market requirements in terms of quantity and quality that would in turn provide more income opportunities.

**Extended Barangay Microfinance Facility**

The Extended Barangay Microfinance facility is a financial assistance extended to eligible barangays for the promotion of social and countryside development. Said Financing Program is designed to generate revenues and promote livelihood. Projects that may be undertaken are as follows: (1) Botika ng Barangay; (2) Tindahan ng Barangay; (3) Tricycle/ Multicab Pampasada Project; (4) Buy and Sell of Recycled Waste Materials Project; (5) Water System/ Sanitation Project; (6) Micro-

Enterprises Project; (7) Maintenance Equipment Project; and (8) Other revenue generating and development projects to be identified by the barangays

## TREASURY PRODUCTS

**Treasury Bills**

The Treasury Bills (T-Bills) are government securities that provide a relatively risk-free investment alternative since it carries the full and unconditional guarantee of the government. These T-Bills are sold on a true discount basis with interest subject to the 20% withholding tax.

**Treasury Notes**

The Fixed Rate Treasury Notes/Bonds (FRTN) are direct and unconditional obligation of the National Government with a minimum term of two (2) years from date of issue. Interest payment is done on a semi-annual basis.

**Retail Treasury Bonds**

Retail Treasury Bonds (RTBs) are medium to long-term investments issued by the Philippine government to make securities available to small investors.

## CASH MANAGEMENT SERVICES

**Deposit pick-up service**

A service offered to valued clients of the Bank for the pick-up of cash. This service is covered by a Memorandum of Agreement between the bank and the client

It is a special arrangement between client and the Bank to pick up daily deposits via on-foot teller or armored car

**Payroll services**

The PostalCash ATM Payroll Facility is an automated payroll service which offers our corporate/government clients a convenient and efficient way of distributing their

payroll through ATM accounts maintained by participating employees.

**Participating bank of SSS for Sickness, Maternity and Employees Compensation (SMEC)**

Members will receive their benefits (sickness, maternity and Employees Compensation (EC) benefit payments) directly released to their automated teller machine (ATM), current or savings accounts

This offers a faster, easier, safer and more convenient means of releasing cash benefits to SSS self-employed and voluntary members, non-working spouses, overseas Filipino workers and employee-members separated from employment.

**Accredited Collecting Bank of Bureau of Treasury, PhilHealth and SSS**

Over-the-counter collection system of PhilHealth, BTr and SSS payments, collection and remittances

## OTHER PRODUCTS

**Microfinance Products**

- **Micro Loans**

Hanapuhay Loan I - For Additional working capital, Business site improvement, Acquisition of business assets with loan amount from ₱5,000 to ₱300,000. This is offered by the MBOs of the Bank

Hanapuhay Loan II - For financing of additional working capital or for the acquisition of fixed assets for use in the client's business from ₱10,000 to ₱300,000. This is offered by the MFUs of the Bank

- **Micro Deposits**

These are savings accounts that cater to the needs of the basic sectors, low-income clients and those that are unserved by the financial system.

Initial deposit and maintaining balance of ₱100, with an average daily balance not exceeding ₱40,000.

**Micro-deposits without micro-credit**

Refers to micro-deposits of a client without outstanding microfinance loans or microcredits. This type of deposit is not related to any loan transaction and shall be implemented only by the MBOs.

**Contractual Savings**

These are Hanapuhay deposits that are regularly collected along with the loan repayments

- **Micro Insurance Program**

Credit life insurance is through Pioneer Life Inc. An insurance protection that guarantees the payment of the face value or outstanding balance upon the death or total permanent disability of the insured borrower

**Remittance Product**

- International Money Order via PostalCash ATM
- PostalBank and AUB Gintong Hatid Remittance Program
- International Money Fund Transfer (in partnership with PNB, LandBank, UCPB)

**Other Services**

- Safety deposit box facilities

These are fire proof containers housed in the bank's vault that are leased to clients on an annual basis and are usually used as a repository for the client's valuables

- Sale of acquired assets

Selling of acquired assets (from foreclosure, dacion en pago), real estate and vehicles / chattels, on "as-is-where-is" basis to qualified buyers

# Branch Directory

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