

**DEVELOPMENT BANK OF THE PHILIPPINES
VALIDATED 2016 PERFORMANCE SCORECARD**

	Objective/Measure	Component		2016 Target	DBP Submission		GCG Validation		Supporting Document	Remarks	
		Weight	Rating System		Actual	Rating	Score	Rating			
CONSTITUENCY	SO 1	Support Government Priority Programs and Inclusive Growth Initiatives									
	SM 1	Percentage Growth of Loan Portfolio to: 1a. <u>Priority Areas</u> Infrastructure & Logistics, Social Services, MSMES, Environmental Protection	12.5%	Actual / Target x Weight	10% increase from the 2015 actual (est. ₱106,310 Mn based on actual)	₱121,116 Million	12.50%	₱121,116 Million	12.50%	<ul style="list-style-type: none"> • Summary of Total Priority and Other Priority Loans Accomplishment • Reports from the Middle Market Group (MMG), Corporate Banking Sector (CBS), Development Sector (DS), and Branch Banking Sector (BBS) • List of Loan accounts under Priority Area as of 31 December 2016 	Loans to Priority Areas increased by ₱24,214 Million or 24.99% from previous year's amount.
		1b. <u>Other Priority Areas</u> Manufacturing, Construction, Real Estate Renting, Wholesale and Retail Trade, Agri-business, Financial Intermediation	12.5%	Actual / Target x Weight	10% increase from the 2015 actual (est. ₱64,610Mn - based on actual)	₱62,340 Million	11.90%	₱62,340 Million	11.90%		With a 2015 actual of ₱59,703, the 2016 target was set at ₱65,673 Million. Based on the reported actual of ₱62,340 Million, DBP garnered a rating of 11.90%.

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SM 2	Percentage of Satisfactory Customer Rating	5%	Actual / Target x Weight	90% of respondents giving "Satisfactory Rating" (based on third-party survey)	Third Party survey was not accomplished, the Bank was not able to hire third party research service agency due to failed biddings	0%	Third Party survey was not accomplished.	0%	<ul style="list-style-type: none"> DBP Customer Survey Results (General Customer Satisfaction) (January - December 2016) Customer Satisfaction rating per transaction (January - December 2016) Customer Feedback Survey Results (January - September 2016) Chronology of Procurement Activities for DBP Customer Satisfaction Customer Satisfaction Survey Form 	<p>Customer Satisfaction Survey provides information on the issues that are important to customers. It also reflects the current standing of service and product quality and delivery in the customer's viewpoint. DBP requested for the renegotiation of target citing failure of bidding as reason. DBP represented that there have been efforts to hire third party provider to conduct the survey since 2014. However, since then, it has experienced failure to bid out the said project. As a counterproposal, DBP is requesting to use the internal survey conducted wherein DBP achieved an average bankwide rating of 95.73%. Based on the validation of submitted documents, the efforts to procure a third-party research agency started in August 2014 and DBP declared failure of bidding twice</p>

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										<p>during that year. It is noticed on the submitted chronology of procurement activities that there was an adequate amount of time to process the procurement even in 2015. In fact, as early as September 2015, the BAC declared failure of bidding, twice for the particular project. Following procurement rules and procedures, DBP can now undertake a negotiated procurement, as such in December 2015 DBP met with the DAP for possible engagement and another meeting on August 2016. DBP also cited that DAP declined to undertake the engagement and that the "adoption of the Negotiated Procurement mode under an Agency to Agency Agreement was not feasible". DBP then undertook competitive bidding which was also declared a failure by December 2016. Upon examination of the events, the reason</p>

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								for failure of bidding is not acceptable. First, citing failure of bidding as a justification is no longer acceptable given that it has happened twice both in 2014 and 2015. DBP had enough time from to look for potential providers under Negotiated Procurement. Second, there is an evident lapse on the part of DBP to immediately proceed with the negotiation of procurement with DAP given that the meeting recommenced only in August 2016 from the initial exploratory meeting in December 2015. Third, DBP did not exhaust possible engagement with other providers under Negotiated Procurement. DBP only explored the probability of hiring DAP under Agency to Agency procurement. Negotiated Procurement provides more flexibility to agencies as this entail relatively fewer process and time. Negotiated

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										Procurement is not limited to Agency-to-Agency procurement, DBP could have resorted to negotiation with other market research firms available and not just DAP. With this, the request for renegotiation of target from "90% of respondents giving "Satisfactory Rating" (based on third-party survey)" to "90% Satisfactory using DBP survey" is DENIED.

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	SO 2	Expand Credit Access for the Following Sectors: LGUs, Water Districts and Electric Cooperatives									
	SM 3	Total Loan Approvals for LGUS, Water Districts And Electric Cooperatives	11%	Actual / Target x Weight	₱15,000 Mn (to complete the P60 Bn target amount of loans)	₱14,104 Million	10.30%	₱14,104 Million	10.34%	<ul style="list-style-type: none"> Accomplishment Report of the Branch Banking Sector (BBS) submitted to the Head of the Strategic Planning Group (SPG) List of loan approvals with corresponding amounts approved under LGUS, WDs and ECs 	<p>In 2016, DBP reached ₱14,104 Million total loan approvals out of the ₱15,000 Million target.</p> <p>The discrepancy in the rating is due to rounding-off of decimals.</p>
		Sub-total	41%				34.70%		34.74%		
FINANCE	SO 3	Intensify Deposit Generation Capabilities									
	SM 4	Percent Increase in Total CASA Deposits	10%	Actual / Target x Weight	15% increase	20.59%	10.0%	20.59%	10%	<ul style="list-style-type: none"> Accomplishment Report of the BBS submitted to the Head of the Strategic Planning Group (SPG), COA Annual Audit Report 	<p>The 20.59% increase equivalent to ₱22,670 Million brings the total CASA as of 31 December 2016 to P132,777 Million.</p> <p>DBP's CASA growth rate of 20.59% is a decrease from the previous year's growth rate of 30%.</p>

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SM 5	Percent Increase in Total Deposits from the Countryside	10%	Actual / Target x Weight	23%	21%	9.20%	21.26%	9.24%	<ul style="list-style-type: none"> CASA Deposits per Branch as of 31 December 2016 Deposits from Countryside per Branch as of 31 December 2016 	<p>Total countryside balance as of 31 December 2016 is ₱135,449 Million with a percentage increase of 21.26% or ₱23,751 Million from previous year's amount of ₱111,698 Million.</p> <p>There is a slight difference in the rating as the GCG validated rating uses two decimal places.</p>
SO 4 Improve the Quality and Balance of Loan Portfolio										
SM 6	Net Income	5%	Actual / Target x Weight	₱5,000 Mn (if MRTC has not been sold)	₱4,202 Million	4.20%	₱4,202 Million	4.20%	COA Annual Audit Report for 2016	<p>DBP registered its Net income at ₱4,202 Million by end of 2016. However, the 2016 Net Income decreased by ₱508 Million or 10.79% from ₱4,710 Million in 2015.</p> <p>DBP requested for renegotiation of target from ₱5 Billion to ₱3.7 Billion. Per representation, the 2016 election allegedly affected the realization of projected loan approvals and release. The election during 2016 is not a valid reason as it</p>

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										<p>is an anticipated event and the effects should have been foreseen. Moreover, the fact that 2016 was an election year was discussed during the TWG and considered in setting the targets.</p> <p>Given the actual accomplishment of DBP, the request for renegotiation is no longer necessary. While DBP failed to hit the set target, there is no reason to accept the renegotiated target as it was already surpassed by DBP's actual accomplishment. Moreover, the justification provided is not acceptable as these are factors foreseeable at the time of negotiation. When the 2016 targets were negotiated, DBP was well aware of the upcoming national elections and such factor was already taken into consideration during the target setting. In fact, the target for 2016 was</p>

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										pegged at 11% increase of the 2015 target while DBP was able to exceed its 2015 target by 9%. The TWG could have agreed on even higher target if election year was not considered as a factor. Hence, the request for renegotiation is DENIED.
SM 7	Return on Equity	3%	Actual / Target x Weight	11.09%	10.21%	2.76%	10.21%	2.76%	Report Certified by Head of Accounting and COA Annual Audit Report	There is a noticeable decrease in Return on Equity by 12.5% along with the decrease in net income. The current Return on Equity is from the Net Income of ₱4,202 Million over the average equity of ₱41,136 Million. DBP requested for renegotiation of target from 11.09% to 8%. The request is made considering the request to lower down the Net Income target which consequently will result to a lower ROE. As stated above, the fact that 2016 is an election year cannot be used as a basis for renegotiation as it is a foreseeable event.

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										Second, 2016 being an election year was already factored in as an assumption in setting the target. Lastly, DBP's ROE is already below industry standard. Accepting such level below the standard as an accomplishment violates the principle of performance management system the Governance Commission upholds
SM 8	Portfolio Quality - NPL Ratio (Net)	3%	All or nothing	1.50%	0.16%	3%	0.16%	3%	<ul style="list-style-type: none"> Report from Accounting (Bankwide Financial Highlights as of December 31, 2016 DBP Published Balance Sheet from BSP 	Net NPL ratio decreased as a result of the reduction in NPL level on account of the restructuring of some accounts and collection from various accounts. Net NPL of ₱383.9 Million over Total Loan Portfolio of ₱240,900 Million.

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	Objective/Measure	Weight	Rating System	2016 Target	Actual	Rating	Score	Rating			
	SO 5	Strengthen Balance Sheet and Improve Credit Rating									
	SM 9	Maintain Adequate Capital	2%	If below 8.5% = 0 score If 8.5% or above = 2% Score	18% (Common Equity Tier (CET) 1 8.5%: Total Capital Adequacy Ratio (CAR) 10% BSP requirement)	15.10%	2%	15.10%	2%	Report certified by Head of Accounting and BSP Performance Indicators	Although current CAR is lower than previous year, it is still above the BSP minimum requirement of 10%.
	SM 10	Credit Rating, i.e. S&P & Fitch	1%	All or nothing	Maintain current standing BBB/BB+	BBB/BB+	1%	BBB/BB+	1%	Copy of report extracted from Fitch's /S&P's indicating the Rating Results	Fitch rated DBP BB+ Standard and Poor's rated DBP BBB .
		Sub-total	34%				32.16%		32.20%		
	SO 6	Streamline and Update Existing Credit and Other Processes									
INTERNAL PROCESS	SM 11	TAT in Processing of Loan Applications (above P10 Million)	5%	$(1 - ((\text{Actual} - \text{Target}) / \text{Target}) \times \text{Weight})$	80% processed loan applications within 45 days TAT	73% of the total completed loan applications processed within 45 days TAT	4.56%	73% of the total completed loan applications processed within 45 days TAT	4.56%	<ul style="list-style-type: none"> Status Report on Credit Streamlining Implementation from Credit Risk Management Group List of Loan Applications and corresponding processing time per sector 	Out of 315 Credit Applications (CAs) bankwide, 229 CAs or 73% were approved within turnaround time. Middle Market Group (57.14%), Corporate Banking Sector (65.79%), Development Sector (74.47%), Branch Banking Sector (74.53%).

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Objective/Measure	Weight	Rating System	2016 Target	Actual	Rating	Score	Rating			
SO 7	Develop and Utilize ICT Toward Improved and Diversified Services									
SM 12	Percentage of Completion of Integration of DBP Core Systems	5%	Actual / Target x Weight	<p>Full implementation of the following systems:</p> <p>1. Vendor management system</p> <p>2. Insurance Management System</p> <p>3. Westpac (Australian Remittance System)</p> <p>4. Cash Management System</p> <p>5. Card Management System</p> <p>6. Check Truncation</p>	<p>1. Vendor Management System – 100% completed and implemented on July 20, 2016</p> <p>2. Insurance Management System – 100% complete; implemented December 28, 2016</p> <p>3. Westpac (Australian Remittance System) – 100% completed and implemented on July 22, 2016</p> <p>4. Cash Management System – 90% complete; implementation date moved to February 2017 due to priority resources shift towards EMV project (not committed to GCG)</p> <p>5. Card Management System – 100% complete;</p>	4.88%	<p>Full implementation of the ff. systems:</p> <p>1. Vendor Management System</p> <p>2. Insurance Management System</p> <p>3. Westpac (Australian Remittance System)</p> <p>4. Card Management System</p> <p>Cash Management System – 90% complete</p> <p>Check Truncation – 95% complete</p>	4.88%	<ul style="list-style-type: none"> Accomplishment Report / Updates on Performance Targets to GCG for 2016-Q4 Rollout Memorandum, User Acceptance and Sample Output of Vendor Management System, Insurance Management System, Westpac and Card Management System 	<p>Only four out of the six targeted processes were completed and implemented.</p> <p>Cash Management System was at 90% completion on 31 December 2016 and implementation was moved to February 2017 due to priority resources shift towards EMV project which was not committed with GCG. Check Image Clearing System was at 95% completion as of 2016-year end and implementation was moved to 16 January 2017 due to additional requirements.</p>

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				implemented December 1, 2016 6. Check Truncation – 95% complete						
SO 8	Strengthen Risk Management and Regulatory Compliance									
SM 13	Automation of Risk Management System	5%	All or Nothing	Successful bidding out of the Risk Model Application with consultancy services	Risk Model Application was not bidded out. - Risk Model Application for bidding in 2017 - Consultancy Services – negotiated bidding was successfully done in October 2016	0.00%	Integration of IFRS Compliance Project with Risk Model Application (Expected Credit Loss Model).	5%	<ul style="list-style-type: none"> • Updates on Accomplishments of performance targets to GCG for the 3rd Quarter from the Head of the Credit Risk Management Group • Terms of Reference on Consultancy Service • BAC Approval on ICRRS • Chronology of Activities and related developments for the Automation of Risk Management System 	<p>The target for 2016 is for DBP to hire a consultant to provide Risk Model Application in order to comply with the requirement of BSP. The relatively flexible target, since it does not require the adoption or implementation of risk model, considered the complexity of the project such that the target is limited only to successful procurement.</p> <p>Notwithstanding the flexible target, DBP requested for renegotiation of the target to "Integration of IFRS Compliance Project with Risk Model Application (ECL Model) and shortlisting of qualified consultants for bidding in Q1 2017." The DBP justified that the issuance of Executive Order No. 198 approving</p>

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								<p>the merger of DBP and LBP made DBP reconsider the plan of acquiring a Risk Model Application to avoid duplication of systems as LBP has an existing Internal Credit Risk Rating Systems (ICRRS)/Modeling system.</p> <p>To develop the ECL model (Risk Model), DBP needs to undertake the first phase of IFRS 9, Classification and Measurement (C and M), which determines how to account for financial assets and liabilities in financial statements and their ongoing measurement, and remodel the bank's ICRRS to be aligned with Philippine Financial Reporting Standards (PFRS) 9. DBP's ECL model is tied up with borrower risk and ICRRS shall be used as the basis of setting the allowance for the risk.</p> <p>Impairment is the biggest change for banks</p>

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											adopting IFRS 9/PAS 9 from IAS/PAS 39 since forecasting expected credit losses instead of accounting for them when they occur will require institutions to greatly enhance their data infrastructure and calculation engines. Considering the complexity of the new systems and workflow to be put in place and that bundling the project is more efficient in terms of resources and manpower, DBP's request for renegotiation is ACCEPTED. Target is revised to "Integration of International Financial Reporting Standards (IFRS) Compliance Project with Risk Model Application". The request to include shortlisting is not considered since it is an accomplishment for 2017. Moreover, the non-achievement of the measure does not translate to direct impairment of DBP's business. In the meantime that the ECL is

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										being developed, the BSP allowed DBP to continue the adoption of its own Loan Loss Methodology (LLM) based on Probability of Default (PD).	
	Sub-total	15%				9.44%		14.44%			
	SO 9	Innovate and Grow Capable, Motivated, Committed and Results-Oriented Professionals									
ORGANIZATION	SM 14	Improve Competency Level of Employees	5%	All or Nothing	Set baseline for competency level	Baseline Competency Level/Grid requirements per level completed through the following activities done in the 4th Q: 1.) Publication of the DBP Competency Primer and Career Development Plan form through the HR Portal 2.) Continuous updating of Competency-based job description 3.) Enhanced Competencies and Training Programs 4.) Feature of DBP Competencies in weekly feature	5%	Baseline Competency Level/Grid requirements per level completed through the following activities done in the 4th Q: 1.) Publication of the DBP Competency Primer and Career Development Plan form through the HR Portal	0%	<ul style="list-style-type: none"> Update on DBP Competency Model from HR head Job Description per Position Title per group 	No Competency Assessment was conducted by DBP; hence, no baseline was set. The target set baseline competency level entails all the process in developing a competency framework including the assessment of the actual competency of the employees.

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SO 10	Integrate Certified Management Systems for Streamlined Operations and Decision-Making, Wider Participation and Efficiency in Resource Use									
SM 15	Establish QMS/EMS	5%	All or Nothing	<p>2016 IMS Target: Re-certification of the Bank's Integrated Management System (IMS) to ISO 9001:2008 (Quality Management System) and ISO 14002:2004 (Environment Management System) for the 14 Bank processes covering the Head Office, 15 RMCs and 96 Branches</p>	<p>1.) DBP Successfully hurdled, without any major nor minor non-conformity, the surveillance audit conducted by Certification International Philippines for its Integrated Management System, meriting a continued certification covering the following 14 Bank Processes for the sites: Head Office, 15 RMCs and 96 Branches.</p> <p>1. Corporate Governance 2. Remittance Service Operations 3. Deposit and CASA Account Management 4. Electronic Banking 5. ATM Operations 6. Development</p>	5%	<p>Recertified 14 Bank Processes for the sites Head Office, 15 RMCs and 96 Branches.</p> <p>1. Corporate Governance 2. Remittance Service Operations 3. Deposit and CASA Account Management 4. Electronic Banking 5. ATM Operations 6. Development Banking 7. Investment Banking 8. Capital Markets Development 9. Trust Services Operations 10. Asset Management 11. Treasury Trading Operations 12. Treasury Marketing and Liquidity Management 13. Branch Banking Services 14. Accounting Approval for</p>	5%	<p>Copy of letter of Approval for maintenance of ISO 9001:2008 and 14001:2004 as certified by Certification International Philippines Inc. (CIPI) covering the following 14 Bank processes for the sites: Head Office, 15 RMCs and 96 branches.</p>	<p>Maintained Bank's Integrated Management System (IMS) ISO 9001:2008 (Quality Management System) and ISO 14002:2004 (Environment Management System) certification for the 14 Bank processes covering the Head Office, 15 RMCs and 96 Branches.</p>

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				Banking 7. Investment Banking 8. Capital Markets Development 9. Trust Services Operations 10. Asset Management 11. Treasury Trading Operations 12. Treasury Marketing and Liquidity Management 13. Branch Banking Services 14. Accounting approval of certification for IMS was received per letter to DBP dated October 19, 2016 (copy attached)			recertification was received per letter to DBP dated October 19, 2016 (copy attached)			
	Sub-total	10%				10%		5%		
	Total	100%				86.30%		86.38%		

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