

INSTITUTIONAL GOVERNANCE

Governance, Risk and Compliance Framework

PDIC acknowledges that good corporate governance is essential to the achievement of its goal as an active partner of the government in national development, safeguards the interest of the depositing public, and contributes to the promotion of financial stability in the economy. Thus, PDIC is committed to institutionalize the principles of good corporate governance in the entire organization. The Board of Directors, management and employees of the Corporation equally commit to the principles contained in PDIC's Code of Corporate Governance and acknowledge that this Code will serve as a guide in the achievement of corporate goals.

The PDIC's Integrated Governance, Risk, and Compliance (GRC) Framework illustrates the collaboration between its core and support functions to promote effective governance, manage risks, ensure compliance, and uphold strong control systems. This framework delineates the processes that integrate these functions, with the goal of improving performance and reducing redundancies in governance, risk management, compliance, and control. As a result, it facilitates more efficient information sharing and reporting activities.

The PDIC Board of Directors provides oversight through the various Board Committees, namely: Board Governance, Board Risk Management, and Board Audit. These Board Committees are responsible for ensuring that the Corporation's governance, risk management, compliance, and control systems are effectively established, implemented, and monitored. Additionally, they focus on identifying and managing key risks and compliance challenges encountered by the Corporation.

Corporate Governance

The Board Governance Committee (BGC) assists the Board of Directors in fulfilling its corporate governance responsibilities and ensuring adherence to the principles and standards of good corporate governance by defining the institutional framework for sound corporate governance; adopting policies and procedures consistent with good governance standards; and ensuring the availability of an effective system for monitoring compliance with laws, rules, regulations and policies.

The status of corporate compliance to issuances of various regulatory agencies was regularly presented to the BGC by the Corporate Governance Office. The latter monitors laws, rules and regulations which affect or are relevant to the Corporation.

The Corporation's projects, programs and activities were regularly posted in the PDIC website to promote transparency and better stakeholder engagement. Such promotion and strengthening of public partnership were further displayed in the provision of an accessible, efficient and reliable feedback mechanism as embodied in the Corporation's Whistleblowing Policy. This policy provides feedback channels for any individual to report, anonymously if so desired, and

testify on matters involving actions or omissions of all covered personnel that violate good governance principles, or are illegal, unethical, and against public policy and morals, promote unsound and unhealthy business practices, and are grossly disadvantageous to the PDIC and/or the environment.

In 2024, the BGC discussed and endorsed to the Board of Directors for approval the PDIC's Quarterly Monitoring Report on Corporate Performance and Annual Performance Report, as well as guidelines and policies such as the Revised PDIC Code of Corporate Governance, PDIC Competency-Based Performance Management System Guidelines and Templates, Revised Financial Crisis Management Plan to include Successive Bank Closure Scenario, Proposed Revisions to the Standard Operating Guidelines and Instructions (SOGI) on Real and Other Property Acquired, Revised Chart of Approving/Signing Authorities on Budget Realignment, Electronic PDIC Investor-Investee Connect, Deposit Insurance Fund Targeting Methodology, PDIC Career Development and Succession Management Program, and the PDIC Competency Framework, Competency Dictionary and Competency Profiles/Matrices.

Other governance matters such as the Proposed Strategy Map, 2025-2028 Corporate Strategic Plan, 2025 Performance Scorecard, Revised PDIC New Organizational Structure and Staffing Pattern, PDIC's Legislative Initiatives, Implementation of the Adjustments in the PDIC Compensation and Position Classification System Salary Administration Scheme, and Independent Assessment Report on the Conduct of Internal Financial Crisis Simulation Exercise, were likewise presented to the BGC for endorsement to the Board of Directors.

Since the BGC exercises the functions of a Nomination and Remuneration Committee, the BGC also reviewed and evaluated the qualifications of officers nominated to positions requiring approval by the Board of Directors.

Risk Management

The Board of Directors, through the Board Risk Management Committee (BRMC), ensures the effective identification and management of key risks in accordance with its risk management policy. This oversight is complemented by the Enterprise Risk Management Committee (ERMC), which incorporates risk management into every aspect of strategy formulation and execution to achieve the Corporation's objectives.

The Enterprise Risk Management (ERM) Framework outlines the essential principles, components, and processes required for the effective and efficient management of the Corporation's risks. It demonstrates how risk management is integrated within the PDIC's organizational structures, including its planning and decision-making processes. Since its full implementation in 2014 and supported by various workshops, this framework has reinforced management practices, improved decision-making, and enhanced resource allocation within the Corporation. As a result, it has enabled the PDIC to fulfill its mandates effectively and carry out programs and initiatives that contribute to the stability of the financial system.

In 2024, the Corporation underscored its ongoing commitment to enhancing risk management practices and fostering a strong risk culture among employees. Following the guidelines set by the Civil Service Commission regarding alternative work arrangements, the PDIC implemented continued work-from-home options, creating a flexible and adaptive working environment.

To bolster risk awareness, the Corporation conducted specific orientations for risk analysts alongside comprehensive onboarding sessions for new employees. This effort ensured that all staff members were well-informed about risk management protocols. The Corporation also organized a range of training sessions throughout 2024, aimed at equipping employees with critical knowledge and skills, including:

- *A Seminar on Records Counter Disaster Preparedness and Business Continuity*, held across March and April.
- *A Seminar on Basic Fire Safety*, conducted in August and September.
- *Cybersecurity Awareness Training*, offered in November and December.
- *A Risk Management and Banking Regulations Briefing*, which took place in November.

Furthermore, the Risk Management Office (RMO) and Information Technology Group (ITG) participated in the Annual Incident Response Readiness Training and Simulation Drill for the Government Insurance Cluster in October, reinforcing the Corporation's emergency preparedness and response capabilities.

The Corporation's dedication to building a comprehensive risk management framework was further exemplified through ongoing collaboration among the RMO, the CGO, and the Internal Audit Group (IAG) under the GRC Framework. Regular monthly meetings facilitated the sharing of information, which enriched the risk management process by enabling the identification of new risks, monitoring existing ones, and addressing initiatives aimed at risk mitigation.

Key risks and other risk-related matters were consistently updated and reported to both the ERM and the BRMC. These detailed reports provided Top Management and the Board Committees with essential information for making informed decisions regarding actions to be proposed to the Board. This proactive and structured approach to risk management underscored the Corporation's commitment to identifying and addressing potential challenges effectively, thereby promoting a resilient operational environment.

This ongoing investment in risk management training, collaboration, and reporting highlights the Corporation's strategic focus on safeguarding its operations and ultimately achieving organizational objectives.

Internal Audit

The Board Audit Committee (Board AC) is one of the oversight committees of the Corporation established to assist the Board of Directors in overseeing the financial reporting process, system of internal control, audit process, and compliance with applicable laws, rules and regulations.

Among the purposes of the Board AC is the monitoring and evaluation of the adequacy and effectiveness of the internal control system to support the achievement of the Corporation's objectives. In that respect, the Board AC exercises oversight and supervision of internal audit activities, and internal audit is empowered to be independent by its appropriate reporting relationships to the Board AC and Management. The IAG, tasked to perform the internal audit function, reports functionally/ operationally to the Board AC and administratively to the President and Chief Executive Officer.

Internal audit activities are continuously guided by the existing internal guidelines, i.e., SOGI on Internal Audit and Internal Control Assessment, which are aligned with the Department of Budget and Management's Revised Philippine Government Internal Audit Manual.

Among the key internal control procedures that the Corporation has in place are the system of accounting and reporting which provides the necessary internal controls to ensure that transactions are properly authorized and recorded; assets are safeguarded against unauthorized use or disposition and liabilities are recognized; segregation of functions for processing, reviewing, approving, recording, and safekeeping; delegation of authority and supervision; and completeness and integrity of transaction documents and report.

In 2024, the IAG conducted a review of internal controls in financial recording and reporting, liquidation procedures of closed banks, segregation of duties, physical count and/or inspection of assets. The IAG likewise reviewed the Corporation's compliance with laws, rules, regulations and managerial policies, as well as the 4Es of Operations (i.e. efficient, effective, economical, and ethical) of Operating and Support units/systems under the Receivership and Liquidation Sector (RLS), Corporate Services Sector, ITG and other sectors.

The Board AC noted that the Internal Control System of the Corporation is generally effective based on the results of audit engagements reported by the IAG. Its independent evaluation of the effectiveness of the internal control system as well as the effectiveness of system controls for application systems continued to be supported by the Internal Control Assessment Methodology which was recognized as among the Best Practices in Internal Auditing by the Association of Government Internal Auditors.

The Board AC will continue to perform its oversight role, particularly in monitoring the Corporation's action plan to address concerns related to internal processes (Operations and Support) and their full automation for greater efficiency, especially under the RLS, and guarantees their effective implementation particularly in the management of Closed Banks' assets, recording, and regular reporting to the Board of Directors.

The PDIC Management is committed to strengthening governance, enhancing risk management processes and implementing an effective internal control system. This ensures that relevant risks are addressed in processes/systems where significant audit findings were identified.

The IAG, under the direction and supervision of the Board AC, shall continue evaluating the effectiveness of internal controls and communicate the results to the Board AC. This will facilitate the implementation of corrective or preventive measures, ensuring that controls are consistently applied at all levels and across the Corporation.