DBP DATA CENTER, INC.

(A wholly-owned subsidiary of the Development Bank of the Philippines)

RISK MANAGEMENT

The Corporation is exposed to various forms of risks. These risks can be grouped into credit, market, liquidity and operational. In managing these risks, the approach is not always risk minimization but managing risks to make an optional contribution to company revenues.

<u>Credit risk</u>

Credit risk is the risk that the Corporation will incur a loss because its clients, customers or counterparties will fail to discharge their contractual obligations. Acceptance of projects from agencies/clients is based on criteria that the Board of Directors and Management continuously review and improve based on on-going analyses of agency/client behavior. The objective is to continuously improve the Companyôs portfolio quality. Management carefully manages its exposure to credit risk. Project proponentsô payment attitude is being evaluated for future engagements.

Presently, DCIôs sole counterparty is DBP. With the Bankôs IT including DCI in their annual budget allocation, DCI only considers cash flow concerns and not the risk of non-payment. However, the Company is starting to open possibility of offering services and expertise to other government agencies and instrumentalities outside DBP. Additional due diligence is being exerted by the Management to avoid recurrence of previous experiences in government collections.

<u>Liquidity risk</u>

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under the normal and stress circumstances. To limit this risk, Management monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of short-term investments, which could be used to secure additional funding if required. Further, the Corporation limits its engagement in short-term projects to facilitate inflows of cash.

As the Companyôs current source of income comes from DBP, DCI considers liquidity risk as part of its risk universe. The organization recognizes the risk in matching its receivables from DBP to its payables, specifically in servicing the salaries of its employees.

With the staff supplementation contract stating a certain period required for DBP IT to pay DCI, DCI closely monitors the payment period stated in the contract.

Below is the asset-liability gap analysis for the year 2013:

	Up to 3 mos.	Over 3-6 mos.	Over 6 mos-1 yr	Over 1-5 yrs	Over 5 yrs	Total
Assets:						
Petty cash fund	10,000.00					10,000.00
Due from other banks	23,724,679.85					23,724,679.85
Receivables	20,201,306.02		3,785,546.91	14,089,399.30		38,076,252.23
Prepaid expenses	506,618.41			0		506,618.41
Property plant & equipment				1,145,281.62		1,145,281.62
Investment in Trust – Retirement Fund				11,262,001.14		11,262,001.14
Other assets				687,681.53		687,681.53
Total	44,442,604.28	0.00	3,785,546.91	27,184,363.59	-	75,412,514.78
Liabilities:						
Current liabilities	11,473,001.08					11,473,001.08
Non-current Liabilities				19,460,589.35		19,460,589.35
Total	11,473,001.08			19,460,589.35	-	30,933,590.43
Asset-liability gap	32,969,603.20	0.00	3,785,546.91	7,723,774.24	-	44,478,924.35

Market risk

The Corporation's exposure to market risk would be the amendment of Government Procurement Policy Board (GPPB) Resolution No. 03-2007 amending section 53(e) of IRR-A of RA 9184 to include infrastructure projects and consulting services. This section states that negotiated procurement shall be allowed in the procurement of consulting services and goods from another agency of the Government, such as the Procurement Service-Department of Budget and Management, the Office tasked with a centralized procurement of commonly used Goods for the government in accordance with the Letters of Instruction No. 755 and Executive Order No. 359, series of 1989. For purposes of this paragraph, the term agency shall exclude GOCC incorporated under Batas Pambansa Blg. 168, otherwise known as the Corporation Code of the Philippines. RA 9184 is a law enacted to govern government dealings with private sector contractors and if such is the scope of the law, it should not cover government dealings with other government agencies such as DCI. With the issuance of GPPB Resolution No. 12-2013, which reverse GPPB resolution no. 03-2007, DCI's position in the Information Technology market industry dealing with government agencies and instrumentalities, is once again brought into an active status.

During the current year (2013), DCI continued to focus primarily on assisting the Bank's initiatives on various bank products by providing the workforce for the development and maintenance of the Bank's systems and applications. Further, DCI also started to seek opportunities to increase revenues by expanding its customer base to include government agencies and instrumentalities.

Operational risk

Operational risk is the risk of loss arising from the systems failure, human error, omission, inefficiency, unauthorized activities, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Corporation cannot expect to eliminate all operational risks, but though a control framework that is monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, authorized access, authorization and reconciliation procedures, staff education and assessment processes. Further, a comprehensive business continuity and recovery plan is in place to mitigate this risk.

As the organization's operations involve providing IT workforce to DBP, DCI considers operational risk as the major risk that it has, particularly the ones related to employee management.