



PUBLIC SAFETY MUTUAL BENEFIT FUND INC.

March 18, 2019

THE BOARD OF TRUSTEES

Public Safety Mutual Benefit Fund, Inc.
Barangay West Crame, San Juan City

Thru: Chairman, Risk and Audit Committee

Lady and Gentlemen:

Submitted herewith is the report of the management to the Risk and Audit Committee for the month of February 2019.

I. Disaster Risk

Background

A disaster is a sudden, calamitous event that seriously disrupts the functioning of a community or society and causes human, material, and economic or environmental losses. Though often caused by nature, disasters are sometimes created by persons.

Disaster risk is expressed as the likelihood of loss of life, injury or destruction and damage from a disaster in a given period of time (*UNISDR Global Assessment Report 2015*). It is widely recognized as the consequence of the interaction between a hazard and the characteristics that make people and places vulnerable and exposed.

Types of Disasters

Disasters can take many different forms, and the duration can range from an hourly disruption to days or weeks of ongoing destruction. Enumerated below are the general types of disasters – both natural and man-made or technological in nature – that can impact a community and business operations.

Natural Disasters

A natural disaster is a major adverse event resulting from natural processes of the Earth; examples are floods, hurricanes, tornadoes, volcanic eruptions, earthquakes, tsunamis, and other geologic processes. A natural disaster can cause loss of life or damage a property, and typically leaves economic damage in its wake, the severity of which depends on the affected population's resilience, or ability to recover and also on the infrastructure available.

Human-caused Disasters

Human-made disaster is a disaster resulting from a man-made hazards as opposed to natural disasters resulting from natural hazards. It means a disaster or emergency



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situation that results in civilian population's casualties, loss of property, loss of basic services, and means of livelihood as a result of war or civil strife. The cause of a human-made disaster can be either intentional or unintentional human actions. It can be fast or of slow attack. It admits that all disasters are caused by humans. It involves an element of human intent, negligence, or error; or involving a failure of a man-made system.

Examples of Man-Made and Technological Types of Disasters

- a. Cyber attacks
- b. Explosion
- c. Civil unrest
- d. Terrorist attacks
- e. Fire accidents
- f. Vehicular accidents
- g. Hazardous materials
- h. Chemical threat and biological weapons
- i. Power service disruption & blackout
- j. Nuclear power plant and nuclear blast

Risks and Problems Involved

Disasters often follow natural hazards. A disaster's severity depends on how much impact a hazard has on society and the environment.

When a disaster strikes, a lot of things can go wrong. The following situation can happen in the operations of PSMBFI when a disaster occur:

1. Destruction or loss of important data and/or documents
2. Damaged system related processes will result to:
 - a. slow processing of claims or loan proceeds, will result to lost profits and membership lost
 - b. slow production or inaccurate reporting
3. A sudden loss of electricity will reduce the company's ability to operate at full capacity.
4. Delayed transportation and deliveries because highways, ports, and rail lines have been destroyed or damaged enough to render them inactive.
5. Shortages in needed supplies (water, office supplies, etc)
6. Damaged offices or facilities become inoperable.
7. Inability to communicate with the key personnel, contact officers and members
8. Physical injuries or death

There was a time when the elevator of PSMBFI has suddenly loosed control and fell from 5th floor to Mezzanine level. More than 10 people were trapped for an hour until they were rescued by the Bureau of Fire Protection – San Juan City. Luckily, no one was injured.

Camp Olivas in the City of San Fernando, Pampanga were our Regional Extension Office 3 is located is experiencing flood during rainy season.



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Just like Nepal, which was struck by major earthquakes, the Philippines is also due for a powerful one. The "Big One," which experts from Phivolcs say may happen in our lifetime, could strike once the West Valley Fault moves.

The West Valley Fault, which traverses various parts of Metro Manila and surrounding provinces, is expected to greatly affect the country since the region is not only highly populated, it also hosts the seat of government and the country's business capital.

Like the Nepal earthquake, the effects of a magnitude 7.2 earthquake on a highly populated area like Metro Manila will include strong ground shaking, damaged infrastructure and utilities, and a potentially huge casualty count.

Management Actions

The management has performed the following activities in order to control or at least minimize the possible effects of disaster risk:

- 1. Structural measures:** This refers to any physical construction to reduce or avoid possible impacts of hazards, which include engineering measures and construction of hazard-resistant and protective structures and infrastructure.
 - Emergency signage
 - Emergency exits are regularly being checked
 - Machinery of the buildings are regularly being checked (Elevator, Fire alarms, Sprinklers)
 - Data and systems backup
 - Insurance to building structures

- 2. Non-Structural measures:** This refers to policies, awareness, knowledge development, public commitment, and methods and operating practices, including participatory mechanisms and the provision of information, which can reduce risk and its impacts.
 - drills such as fire and earthquake
 - First aid and disaster awareness trainings
 - Creation of Emergency Response Team
 - Business Continuity Plan of PSMBFI

Under Board Resolution No. 2015-76, the PSMBFI Business Continuity Plan contains the critical information a business needs, to continue operations if a place of business is affected by different levels of disaster. It was prepared by a team composed of representatives from the Management and the Board to be headed by the General Manager.

Other activities that management should consider are the following:

1. Designation of alternative locations or create a plan to allow employees to work remotely during recovery efforts.
2. Multiple backup procedures of essential data and documents stored in a secure location



3. Establishment of a phone tree to make easier checking in on employees.

The management will continue the existing efforts and will think of more ways to improve the disaster risk management.

II. Update on Implementation of PFRS 9

PFRS 9 is the new accounting standard in reporting financial instruments. It is the local adoption of International Financial Reporting Standard (IFRS) 9 promulgated by the International Accounting Standards Board (IASB). It replaced the earlier accounting standard, Philippine Accounting Standard (PAS) 39 beginning 2018.

Financial instruments are monetary contracts between parties. They can be created, traded, modified and settled. They can be in a form of cash (currency), evidence of an ownership interest in an entity (share), or a contractual right to receive or deliver cash (receivables and payables).

Highlights of PFRS 9

It is meant to respond to criticisms that PAS 39 is inconsistent with the way entities manage their businesses and risks, and defers the recognition of credit losses on loans and receivables until too late in the credit cycle.

Entities will have to start providing for possible future credit losses in the very first reporting period a loan goes on the books – even if it is highly likely that the asset will be fully collectible.

Risk Involved

Non-compliance will make the financial statements misstated in accordance with Philippine Financial Reporting Standard. In this regard, external auditors might issue a qualified or adverse opinion.

Current Status and Management Actions

The management has contracted the service of PricewaterhouseCoopers Philippines to assist and train PSMBFI in implementing the new standard.

Series of workshops are being conducted which involves training on the computation of amount of loss to be recorded in the financial statements. The management has also provided the initial requirements in order to identify what adjustments or processes are still needed in order to comply with the new reporting standard.



Timeframe

Activities	Accounts	Timeframe	Department/Unit Concerned
Data Generation and Schedule Preparation	Loans Receivable	January to March 20	AMD & IT Department
	Funds in Financial Institution	February	Investment Department
Workshop	Loans and Funds	February 14 to 22	Accounting, Investment, AMD
Submission of Initial data for review	Loans and Funds	February 7 to 28	Accounting, Investment, AMD
Drafting of needed reports	Loans and Funds	February 25 to March 21	Accounting, Investment, AMD
Validation and feedback	Loans and Funds	February 25 to March 22	PWC
Final Draft of Reports	Funds in Financial Institution	March 22, 2019	Accounting and Investment Department

III. Update on Risk in banking

Overview

Bank is one of the safest place to keep cash. However, bank failures happen from time to time. Banks will collapse when they are no longer able to meet their obligations. The bank might lose too much on investments, or it maybe unable to provide cash when the depositors demand it.

Issues that Involved Banks in the Philippines

1. Hanjin Philippines shipbuilding bankruptcy

This is the biggest corporate bankruptcy to ever hit the Philippines. It has become financially distressed due to its heavy debt. With revenues falling behind, it cannot support its operations anymore under the burden of its current debt.

- Hanjin owes \$412 million to Philippine banks. Last January 2019, it declared bankruptcy and filed for corporate rehabilitation due to default or failure to comply its loan obligations with Rizal Commercial Banking Corp, Landbank of the Philippines, Metrobank, Bank of the Philippine Islands and Banco de Oro.
- RCBC has the largest exposure of around \$145 million, equivalent to 2% of its gross loans. The full amount exceeds its 2017 net profit, and provisioning on these loans could result in the bank reporting of at least one quarterly loss.
- Landbank of the Philippines confirmed that the bank had \$85-million exposure.



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- According to all banks involved, they are in a strong position to absorb the additional loss provisions and they do not see any significant impact in their operations.

2. RCBC case on \$81 Million cyberheist filed by Bank of Bangladesh

Cyberheist victim Bank of Bangladesh and RCBC are in a legal battle in the US in relation with the \$81 Million money laundering scandal in 2016.

In 2016, \$81 million were stolen by hackers from Bank of Bangladesh slipped into RCBC's branch on Jupiter St. in Makati City, quickly withdrawn, and eventually laundered through in local casinos.

- Last February, the Central Bank of Bangladesh filed a lawsuit against RCBC in a New York court, seeking damages and the return of the \$81 million stolen from its account with the Federal Reserve Bank of New York.
- In March 6, RCBC has filed before a defamation case against the Bank of Bangladesh pointing that the case being filed was baseless.

Risks Involved

Possible Loss on Deposits

A loss on deposits can occur when a bank or other financial institution becomes insolvent or bankrupt.

When a bank fails, it may try to borrow money from other solvent banks in order to pay its depositors. If the failing bank cannot pay its depositors, a bank panic might follow in which depositors run on the bank in an attempt to get their money back. This can make the situation worse for the failing bank, by shrinking its liquid assets as depositors continue to withdraw their funds. The problem is that it's not always possible to predict when a bank will fail.

Management Actions

The management believes that while the issue on Hanjin's bankruptcy and cyber heist in the Bank of Bangladesh may have no current significant impact in the financial situation of RCBC and Landbank, the management is looking for additional bank that can accommodate our check deposits. This is a diversification strategy of funds wherein cash shall be deposited to multiple banks in order to reduce the risk of losing deposits from a single bank.



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For notation.

Very truly yours,

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Vice President & Risk Officer

Noted by,

DIR. MARIO A. AVENIDO
President & CEO