



DEVELOPMENT BANK OF THE PHILIPPINES

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14 October 2026

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SUBJECT: Clarification of News Article by Rappler entitled “DBP’s bad loans: The failures behind the billions”.

Dear Atty. Selleza:

We reply to your inquiry through email dated 13 October 2026, requesting clarification of the following news article published in Rappler dated 12 October 2026 entitled, “DBP’s bad loans: the failures behind the billions”.

The article reported the following:

“The Commission on Audit has uncovered serious deficiencies in state-owned DBP’s lending practices, credit safeguards, and recovery procedure

Following Vantage Point’s exposé earlier this year on the Development Bank of the Philippines’ P36.21-billion non-performing loan portfolio, the Commission on Audit (COA) has uncovered serious deficiencies in the state-owned bank’s lending practices, credit safeguards and recovery procedures. With gross bad loans swelling to P46.50 billion and net income plunging by nearly 43%, COA’s 2025 audit reveals how weaknesses in credit administration, delayed collections and questionable loan-loss estimates have placed mounting pressure on DBP’s profitability, financial resilience and stewardship of public funds.

The fundamental question was how a government-owned development institution could amass billions in troubled loans without triggering immediate alarms regarding its credit discipline, financial resilience, and internal accountability.

Now, the Commission on Audit’s (COA) newly obtained 2025 Annual Audit Report provides disturbing answers to those exact concerns. According to the government’s own auditors, the bank suffers from documented deficiencies in loan releases, inadequate collateral verification, sluggish recovery measures, and an outdated expected-credit-loss model.

The financial consequences of these operational shortcomings are unmistakable. DBP's parent-bank gross non-performing loans escalated significantly, rising from P42.68 billion in 2024 to P46.50 billion in 2025.

To absorb this, its allowance against non-performing loans jumped from P23.03 billion to P33.49 billion. Consequently, the bank's net income plunged by 42.9%, dropping from P7.30 billion to P4.17 billion. Put simply, while DBP technically remained profitable, its rapidly deteriorating credit quality took a heavy toll on its overall earnings.

The initial investigation scrutinized P36,208,917,505.63 in non-performing exposures across 442 businesses and individual borrowers. Among the largest exposures were Premium Megastructures Inc. with P3.4 billion, Manuel and Theresa Chua with P3.31 billion, Dennis Uy's Phoenix Petroleum Philippines Inc. with P2.93 billion, and Megaship Builders Inc. with P2.4 billion. Combined, these four accounts represented approximately one-third of the entire troubled portfolio examined

While COA's audit anonymized its sampled borrowers—meaning no direct documentary link has been formally established between these specific named accounts and the latest audit cases—the newly documented systemic failures substantially confirm our January exposé. The core issue was whether DBP's internal systems for evaluating, monitoring, and recovering funds were robust enough to safeguard the public interest

By December 31, 2025, ICONS carried P6.67 billion in outstanding loans. Alarmingly, P4.09 billion—or approximately 61.4% of that portfolio—was already past due. For every P10 outstanding, more than P6 was overdue, representing a troubling outcome for a program supposedly anchored by secure government infrastructure contracts.

COA's deep dive into specific loans reveals exactly how these funds were mismanaged. Auditors examined a P300-million corporate loan approved in August 2019, where funds were released against assigned receivables from government projects.

However, releases bypassed progress-based disbursement rules, and actual project accomplishments were never properly verified before the capital was deployed. The borrower ceased payments in June 2020, and several of the underlying projects were eventually terminated for delays.

More than five years after default, the P300-million principal remains unpaid, forcing DBP to provide a 100% allowance against the exposure. Similarly, a P490.46-million loan account revealed that the underlying security projects were completed between 2017 and 2021, yet the debt remained unsettled. Auditors discovered the borrower had aggressively subcontracted the work, retaining an actual economic interest of

only 3.5%, raising questions about how DBP assessed the borrower's repayment cash flows.

Recovery efforts were equally flawed. One P97.24-million loan defaulted in June 2021, yet the first recorded demand notice was not issued until July 2025 after passing through six different account officers, undermining accountability. Another P82.21-million exposure languished waiting for foreclosure proceedings simply because the lending center lacked a full-time lawyer.

Most concerning is that DBP's board was aware of these mounting issues. Under Resolution No. 0044, dated January 19, 2022, the board instructed units to investigate the 20 largest non-performing loans. Yet, it took more than four years for the board to officially terminate the ICONS program on June 3, 2026. COA has now recommended investigating potential negligence among officers, prompting DBP's Management Committee to direct its Legal Services Group to conduct an inquiry.

Furthermore, COA discovered that DBP's P49.88-billion allowance for credit losses relied on an expected-credit-loss model that was not properly recalibrated to current observable data, violating Philippine Financial Reporting Standard 9.

Expected-credit-loss models dictate how much a bank must recognize today against loans that may not be recovered tomorrow, relying heavily on probabilities of default and collateral values.

When uncalibrated, the reported allowances may fail to reflect prevailing risks. Consequently, auditors stated that the faithful representation of the bank's P491.42-billion net loans balance and P12.52-billion impairment expense could not be established.

While DBP's gross loan portfolio remained static at roughly P536.69 billion, its allowance surged by P11.78 billion. Concurrently, the appraised value of collateral held against impaired loans plummeted by P39.62 billion, dropping from P104.17 billion in 2024 to just P64.55 billion in 2025.

Although DBP maintains financial soundness with an 11.22% capital adequacy ratio and an unmodified audit opinion, regulatory capital compliance does not eliminate the necessity to fix costly internal control weaknesses.

The fact that 25 of COA's 38 previous audit recommendations remained unimplemented by December 2025 underscores a sluggish approach to structural reform.

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In relation to the foregoing article, DBP noted that several online news portals have devoted considerable space to tackling the Audit Observation Memoranda (AOM) issued by COA concerning certain aspects of DBP operations for the Calendar Year 2025. These news reports have seemingly dwelt on selected portions of these AOMs without taking the full view and appreciation of DBP's responses and courses of actions.

The issuance of the AOM itself is not an indication of any wrongdoing or malpractice but rather merely serves as a preliminary step to the customary audit process of COA. As established jurisprudence dictates, an AOM poses neither a final judgment nor definitive conclusion on a government agency's capacity in managing its resources.

DBP wishes to emphasize that the issues raised in the reports have already been satisfactorily addressed by the Bank and its Management, in accordance and in line with the recommendations of the COA. The Bank's point-by-point replies are fully supported by factual statements, financial evidences and other relevant supporting documents, including defined action plans in accordance with existing laws, policies and rules. DBP likewise continues to work closely with its regulators, including the COA, to implement appropriate remedial measures, strengthen internal policies and controls, and uphold transparency and accountability at all times.

The Bank remains steadfast in upholding the highest standards of corporate governance and institutional integrity— a commitment that was most recently affirmed by the Governance Commission for GOCCs (GCG), which ranked DBP among the top-performing government-owned and controlled corporations in the 2024 Corporate Governance Scorecard, and by the COA which rendered an unqualified audit opinion on DBP's 2025 operations as posted in its website.

Despite the challenges facing the local banking industry and the broader economic environment, DBP remains strong, profitable, and fully capable in fulfilling its development financing mandate. It will continue to serve as a pillar of the Philippine banking and finance industry, while strongly upholding transparency, embodying the principles of accountability and sound corporate governance, and prudent banking practices.

Thank you.

Sincerely,



ALLEN LOUIS V. YANZA

Associated Person/Deputy Corporate Information Officer