

## DISCLOSURE ON MATERIAL RISK FACTORS<sup>1</sup> AND MEASURES TAKEN TO MANAGE RISKS IN 2024

### General Risk Management Framework

Established in 2013, PDIC's risk management framework evolved with the approval of the Enterprise Risk Management (ERM) Framework by the PDIC Board on December 21, 2021. This framework outlines the principles, elements, and processes required to manage risks effectively and integrate risk management into the Corporation's decision-making and resource allocation processes.

In 2024, PDIC continued implementing health and safety measures, including work-from-home arrangements, in accordance with the Civil Service Commission (CSC) Circular on alternative work setups. Risk awareness was enhanced through orientations for risk analysts and onboarding sessions for new employees. The Corporation conducted several training sessions, such as the Seminar on Records Counter Disaster Preparedness and Business Continuity in March and April; Seminar on Basic Fire Safety in August and September; Cybersecurity Awareness Training in November and December; and Risk Management and Banking Regulations Briefing in November. The Risk Management together with the Information Technology Group likewise participated in the Annual Incident Response Readiness Training and Simulation Drill and Exercise for the Government Insurance Cluster last October.

Collaboration between the Risk Management Office (RMO), Corporate Governance Office (CGO), and Internal Audit Group (IAG), which began in 2021 under the Governance, Risk, and Compliance (GRC) framework, continued in 2024, strengthening the risk management process and helping identify and address emerging risks. The KAISA Safety Partner Program with the Bureau of Fire Protection (BFP), which was signed in June 2023, strengthened PDIC's Fire Prevention and Awareness.

Regular updates on key risks and opportunities were reported to the Enterprise and Board Risk Management Committees (E/BRMC), providing top management and the Board with recommendations for addressing these risks.

### Managing Material and Operational Risks

PDIC's President and CEO (P/CEO), who chairs the Asset Liability Committee (ALCO), oversees strategies for managing asset/liability risks, including market, liquidity, credit, and purchased assets management. Operational risks are reported to the Enterprise Risk

<sup>1</sup> Other risk factors have been excluded from this disclosure due to their sensitive or confidential nature.

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Management Committee, also chaired by the P/CEO, which endorses policies and measures requiring Board action.

### **Financial Risks**

PDIC faces market, credit, and liquidity risks, all of which are monitored and mitigated. Market risks are managed by assessing interest rate sensitivity and portfolio composition. PDIC is permitted to invest only in government-backed securities. Credit risks involve loans granted to banks under financial assistance; PDIC mitigates this by ensuring proper monitoring of loan covenants.

PDIC actively participates in the Financial Stability Coordination Council (FSCC), working with the BSP, DOF, BTr, IC, and SEC to monitor and address systemic financial risks. The Corporation follows guidelines for actions during financial crises.

### **Capital Management**

Liquidity risks are managed through prudent cash reserves and financial planning. In 2024, PDIC revised its 2023 Deposit Insurance Fund target ratio (Deposit Insurance Fund (DIF) to Estimated Insured Deposits (EID)) of 5.5% - 8.0% to 6.5% - 9.0%. This ensures that Corporation maintains sufficient liquidity to meet obligations. Likewise, the Corporation is authorized to borrow from the Bangko Sentral ng Pilipinas (BSP) and other government agents when necessary.

In addition to BSP, on August 2024, PDIC submitted all required documents renewing the short-term loan line with the Land Bank of the Philippines as a standby facility for immediate fund requirements, particularly for deposit insurance payouts.

Lastly, the PDIC Board in its meeting last 20 December 2024 approved the revised DIF targeting methodology. Compared to the previous methodology which made use of expert opinion and historical data, the enhanced methodology considered historical data on bank closure, macro-economic indicators (i.e. inflation, interest rates, employment, government spending, to name a few), and utilized statistical tools in the determination of the fund target ratio.

### **Business Continuity Risks**

In 2024, PDIC continued implementing alternative work arrangements and reinforced crisis management plans, focusing on the communication, funding, takeover, and claims settlement plans. A simulation exercise was conducted last September 30 to October 3, 2024, and enhancements on the plans were presented to and approved by the PDIC Board in November.

In addition, active communication and information campaigns on the various services of the Corporation were continuously carried out to ensure safety of all stakeholders.



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## **Reputational Risks**

To monitor and manage reputational risks, PDIC engaged an external service provider to track daily news coverage and social media sentiment. This information was made available to PDIC's Executive and Management Committees. Additionally, PDIC's Public Assistance Desk (PAD) handled inquiries and concerns from stakeholders, and advisories were issued as needed through various communication channels.

### *Stakeholder Engagement & Communication*

The PDIC consistently monitors public and stakeholder sentiment across both traditional and social media platforms. Any news that could negatively impact the Corporation's reputation is quickly escalated to Management for immediate action. Management receives daily news alerts from traditional and online media outlets, along with quarterly reports on media presence and impact, driven by media analytics.

When necessary, the Corporation issues clarifications through letters to the editor or columns for corrections. Additionally, designated PDIC officials engage in live radio or TV interviews, or participate in phone patches, to address media concerns or to highlight the Corporation's initiatives and advocacies.

Queries, requests, and concerns from clients and stakeholders are directed to PDIC's Public Assistance Desk (PAD) for proper resolution or referral to the appropriate departments. Advisories regarding recent developments that may affect service delivery are posted on the Corporation's website and social media channels.

To enhance communication with external stakeholders, the Corporation continues to leverage digital technologies, utilizing its official website, social media platforms, and virtual meetings. PDIC also maintains a presence through live-streamed media interviews. Traditional communication methods, such as text blasts and print or broadcast media, remain in use. For targeted outreach to stakeholders of closed banks, the PDIC regularly holds Depositor Borrower's Forums (DBFs), either in person or virtually, as appropriate.

## **Collaboration with International Partners**

PDIC sustains strategic partnership and cooperation with global standard-setting organizations and international peers such as in the International Association of Deposit Insurers (IADI) to exchange knowledge and insights about global best practices and emerging issues in deposit insurance and financial stability matters. IADI is an international association composed of 100 deposit insurers worldwide, sharing knowledge and expertise about deposit insurance and promoting compliance with the IADI Core Principles for Effective Deposit Insurance Systems.

The PDIC President and CEO plays a key role in the international Association as Treasurer and Vice Chairperson of the Asia-Pacific Regional Committee (APRC). In 2023, PDIC strengthened its partnership with peers in the region through the signing of a Memorandum of Understanding on cross-border cooperation with Deposit Insurance of

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Vietnam focusing on information and staff exchange, and technical assistance. PDIC also had bilateral discussions and engagements on funding methodologies, payout and reimbursement and other key areas in operations with deposit insurers from Colombia, Japan, Kazakhstan, Spain, United Kingdom, and USA.

## **Operational Risks**

Operational risks refer to loss or damage that may be suffered by the Corporation resulting from inadequate or failed internal processes, systems or policies, employee errors and from external events.

PDIC continues to adhere to its Quality Manual (QM), ensuring continuous improvement of its quality management systems (QMS). The Corporation maintained ISO certifications for its claims settlement, bank assessment, loans management, and bank examination processes in 2024.

### *Claims Settlement, Receivership, and Liquidation*

PDIC launched various initiatives in 2024 which enhanced its claims settlement process: a) Increased the threshold amount for waived filing of deposit insurance claims to PhP 500,000 from PhP 100,000 in 2023; b) expanded the coverage for waived filing, to include registered business entities; c) online and various payment options for depositors filing deposit insurance claims.

As regards resolution of loans and real and other properties acquired, PDIC continues to introduce strategies for the efficient loan resolution and disposal of acquired. In 2024, a total of eight hundred fifteen (815) loan accounts were resolved through the Closed Bank Loan Incentive Program (CLIP), while a total of two hundred and eighty one (281) properties were sold through 14 property biddings.

### *Bank Examination and Resolution*

PDIC continued to enhance its bank examination methodologies and conducts joint examinations with the BSP to ensure the safety and soundness of banks with a focus on compliance to PDIC Regulatory Issuances and BSP directives. Financial assistance agreements are likewise monitored to ensure compliance to agreed covenants.

### *Human Resources Administration*

PDIC continued enhancing its recruitment strategies in 2024 to attract and hire new employees. The Organizational Structure and Staffing Pattern (OSSP) was likewise approved by the PDIC Board last October 2024.



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## **Legal Risks**

In 2024, PDIC engaged in continuous coordination with the Department of Justice (DOJ), the Office of the Government Corporate Counsel (OGCC), the Office of the Solicitor General (OSG), DOF, and the BSP to address legal issues affecting the Corporation.

## **Regulatory and Compliance Risks**

Regulatory and compliance risks are brought about by changing regulations that may threaten the Corporation's capacity to efficiently conduct its operations. It includes exposure to legal penalties, financial forfeiture, and material loss an organization faces when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices.

The Corporation, through its Corporate Governance Office (CGO) monitored compliance with regulations from various agencies, including the Governance Commission for GOCCs (GCG), Civil Service Commission (CSC), and Anti-Red Tape Authority (ARTA) and ensured adherence to regulations, particularly in response to emerging challenges.

Risks are mitigated through the continuous identification, and regular monitoring and reporting of risks and opportunities to the PDIC Board and Management by the Risk Management Office (RMO). The Internal Audit Group (IAG) on the other hand, performed regular compliance audit activities to monitor and make sure that compliance requirements and obligations are fulfilled.

## **Information Security and Data Privacy Risks**

PDIC continued enhancing its information security systems in 2024. A Vulnerability Assessment and Penetration Testing (VAPT) done in 2023 identified 141 vulnerabilities. As of end 2024, 62% percent or 88 vulnerabilities were resolved. The remaining 53 or 38%, involving the transition and migration from legacy systems, are targeted for resolution from 2025 to 2026.

PDIC likewise implemented the following systems to enhance its operations: a) Server Expansion; b) Wireless Network & Access Control; c) Shared Cyber Defense Solution; d) Upgraded Insurance Claims Systems - 73% completed by YE 2024; e) Bank Monitoring System / MDAS; and f) Data Erasure Solution.

In addition, the Insurance Cluster (SSS, GSIS, BTr and PDIC) is implementing a Shared Cyber-defense Solution to increase protection against cyber threats.