Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER 1 - BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine Deposit Insurance Corporation
Makati City

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Philippine Deposit Insurance Corporation (PDIC), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the PDIC as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the PDIC in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 13 to the financial statements which disclosed that Notes Payable to the Bangko Sentral ng Pilipinas (BSP) did not include the principal amount of P1.440 billion and interest of P1.136 billion claimed by BSP due to an unresolved issue on the interpretation of Section 1.02 in relation to Section 1.05 of the Loan Agreement dated November 21, 2002 executed between BSP and PDIC. The matter had been elevated by BSP to the Department of Justice (DOJ) for resolution and adjudication in a letter dated April 30, 2014. As at December 31, 2018, the case is still pending with the DOJ. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the PDIC financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the PDIC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the PDIC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PDIC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PDIC's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of PDIC. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

By:

ROSALINDA T. SILAGAN
State Auditor IV
OIC-Supervising Auditor

Date: May 30, 2019

PDIC **PHILIPPINE DEPOSIT INSURANCE CORPORATION**

Bank deposit mo, protektado!

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the Philippine Deposit Insurance Corporation is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board Audit Committee reviews and endorses to the Board of Directors the financial statements for notation. The Board of Directors approves the release of the financial statements to the Commission on Audit and other users.

The Commission on Audit has audited the financial statements of the PDIC in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

SANDRA A. DIAZ
Senior Vice President
Management Services Sector

JOSEFINA J. VELILLA
First Vice President
Comptrollership Group

19062102

ROBERTO B. TAN
President & CEO

May 30, 2019

PHILIPPINE DEPOSIT INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	Restated 2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	3	4,049,597,889	1,335,140,091
Financial Assets, net	4	4,792,748,761	12,254,884,122
Other Investments	5	3,747,682,948	5,347,789,230
Receivables	6	20,567,931	15,628,084
Inventories	7	161,133	594,411
Assets Held for Sale, net	8	44,437,545	53,510,751
Other Current Assets	12	332,556,625	294,090,091
		12,987,752,832	**19,301,636,780**
Non-Current Assets			
Financial Assets	4	176,111,804,244	151,826,004,171
Other Investments	5	43,319,924,401	39,879,422,927
Receivables,net	6	1,679,795,154	2,124,623,020
Investment Property, net	9	1,742,190,599	1,297,877,509
Property, Plant and Equipment, net	10	169,698,418	128,696,343
Intangible Assets, net	11	15,871,445	21,697,856
Other Non-Current Assets	12	334,392,018	277,132,483
		223,373,676,279	**195,555,454,309**
Total Assets		**236,361,429,111**	**214,857,091,089**
LIABILITIES			
Current Liabilities			
Financial Liabilities	13	357,047,988	315,522,109
Inter-agency Payables	14	38,777,225	42,809,767
Trust Liabilities	15	4,020,903	498,058
Unearned Income	16	2,564,953	2,448,944
Other Payables	19	3,229,581,291	2,866,069,098
		3,631,992,360	**3,227,347,976**
Non-Current Liabilities			
Financial Liabilities	13	68,059,164,893	64,201,722,322
Trust Liabilities	15	2,532,256	4,253,780
Unearned Income	16	2,997,521	6,314,414
Provisions	17	234,582,104	236,719,304
Deferred Tax Liabilities	18	750	323,196
Other Payables	19	0	2,014,096
		68,299,277,524	**64,451,347,112**
Total Liabilities		**71,931,269,884**	**67,678,695,088**
EQUITY			
Government Equity (Permanent Insurance Fund)		3,000,000,000	3,000,000,000
Reserves for Insurance Losses		134,057,190,935	114,004,494,372
Retained Earnings		27,372,968,292	30,173,901,629
Total Equity		**164,430,159,227**	**147,178,396,001**
Total Liabilities and Equity		**236,361,429,111**	**214,857,091,089**

The notes on pages 9 to 39 form part of these statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	Restated 2017
Income			
Business Income	20	33,750,117,569	30,014,332,982
Gains	21	11,825,201	751,088,358
Other Non-operating Income	22	299,295,672	616,356,608
Total Income		**34,061,238,442**	**31,381,777,948**
Expenses			
Personnel Services	23	1,061,161,866	1,039,513,596
Maintenance and Other Operating Expenses	24	336,249,996	306,661,378
Deposit Claims Pay-out Expenses		1,718,792,672	1,157,016,828
Receivership and Liquidation Expenses		258,228,440	253,763,407
Financial Expenses	25	3,766,084,624	3,559,896,787
Non-Cash Expenses	26	20,494,378,016	19,376,328,417
Total Expenses		**27,634,895,614**	**25,693,180,413**
Net Income for the Period		**6,426,342,828**	**5,688,597,535**
Income Tax Expense		0	0
Net Income		**6,426,342,828**	**5,688,597,535**
Other Comprehensive Income for the Period		0	0
Total Comprehensive Income		**6,426,342,828**	**5,688,597,535**

The notes on pages 9 to 39 form part of these statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	Permanent Insurance Fund	Reserves for Insurance Losses	Retained Earnings	Total
BALANCE AT JANUARY 1, 2017		**3,000,000,000**	**94,653,703,502**	**32,101,393,359**	**129,755,096,861**
ADJUSTMENT:					
Add: Prior period adjustment	33			28,209,502	28,209,502
RESTATED BALANCE AT JANUARY 1, 2017		**3,000,000,000**	**94,653,703,502**	**32,129,602,861**	**129,783,306,363**
CHANGES IN EQUITY FOR 2017					
Add/(Deduct):					
Additional reserves for insurance losses			19,350,790,870		19,350,790,870
Net Income for the year				5,688,597,535	5,688,597,535
Dividends	28			(7,644,298,767)	(7,644,298,767)
RESTATED BALANCE AT DECEMBER 31, 2017		**3,000,000,000**	**114,004,494,372**	**30,173,901,629**	**147,178,396,001**
CHANGES IN EQUITY FOR 2018					
Add/(Deduct):					
Additional reserves for insurance losses	26		20,052,696,563		20,052,696,563
Net Income for the year				6,426,342,828	6,426,342,828
Dividends	28			(9,227,276,165)	(9,227,276,165)
BALANCE AT DECEMBER 31, 2018		**3,000,000,000**	**134,057,190,935**	**27,372,968,292**	**164,430,159,227**

The notes on pages 9 to 39 form part of these statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collections of Income/Revenue		34,745,992,048	31,130,015,770
Collections of Receivables		337,487,121	494,225,706
		35,083,479,169	**31,624,241,476**
Cash Outflows			
Payment of Expenses		(1,393,438,290)	(1,593,875,284)
Payment of Insured Deposits		(1,729,060,159)	(1,274,094,070)
Grant of Cash Advances and Various Receivables		(38,350,821)	(105,144,830)
Payment of Accounts Payable		(178,382,945)	(69,053,024)
Grant of Financial Assistance to banks		(456,398,934)	(56,100,000)
Payment of Receivership and Liquidation Expenses		(8,061,440)	(9,092,480)
Remittance of Taxes Withheld		(59,499)	(66,537)
		(3,803,752,088)	**(3,107,426,225)**
Net Cash Provided by Operating Activities		**31,279,727,081**	**28,516,815,251**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Proceeds from Matured Investments		116,158,691,862	88,156,979,710
		116,158,691,862	**88,156,979,710**
Cash Outflows			
Purchase of investment		(136,136,612,151)	(108,728,473,330)
Purchase/Construction of Property and Equipment		(33,050,005)	(19,339,171)
		(136,169,662,156)	**(108,747,812,501)**
Net Cash Used In Investing Activities		**(20,010,970,294)**	**(20,590,832,791)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Inflows			
Proceeds from Domestic Loans		307,562,217	0
		307,562,217	**0**
Cash Outflows			
Payment of Cash Dividends		(8,844,298,768)	(7,461,224,931)
Payment of Long-term Liabilities		(17,638,669)	(90,036,438)
		(8,861,937,437)	**(7,551,261,369)**
Net Cash Used In Financing Activities		**(8,554,375,220)**	**(7,551,261,369)**
INCREASE IN CASH AND CASH EQUIVALENTS		**2,714,381,567**	**374,721,091**
Effects of Exchange Rates Changes on Cash and Cash Equivalents		76,231	(102,762)
CASH AND CASH EQUIVALENTS, JANUARY 1		**1,335,140,091**	**960,521,762**
CASH AND CASH EQUIVALENTS, DECEMBER 31	**3**	**4,049,597,889**	**1,335,140,091**

The notes on pages 9 to 39 form part of these statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

1. GENERAL INFORMATION

The Philippine Deposit Insurance Corporation (PDIC) or the "Corporation" is a government corporation established on June 22, 1963 with the passage of Republic Act No. 3591. The Corporation shall, as a basic policy, promote and safeguard the interests of the depositing public by way of providing permanent and continuing insurance coverage on all insured deposits. It shall also be the policy of the state to strengthen the mandatory deposit insurance coverage system to generate, preserve, maintain faith and confidence in the country's banking system, and protect it from illegal schemes and machinations. PDIC is likewise mandated by law to act as receiver/liquidator of closed banks. The PDIC collaborates with the BSP in promoting stability in the banking system and the economy as a whole.

The Corporation's principal office is located at the SSS Building, 6782 Ayala Avenue corner V.A. Rufino Street, Makati City.

As at December 31, 2018, PDIC's total manpower[1] complement stood at 573 (201 officers and 372 rank and file employees), 563 of whom are of permanent status and 10 are coterminous. Under the PDIC Charter, as amended by RA 10846, the President of the Corporation shall be appointed by the President of the Philippines for a term of six (6) years and shall also serve as Vice Chairman of the PDIC Board of Directors, of which four members are appointed by the President of the Philippines, also to serve for (6) years, and two are ex-officio, the Secretary of Finance and the Governor of the Bangko Sentral ng Pilipinas.

The financial statements were authorized for issuance by the Board of Directors on February 6, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of financial statements preparation

The Corporation's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations which have been approved by the Financial Reporting Standards Council (FRSC).

The Corporation, as Receiver/Liquidator, is responsible for managing and disposing the assets of closed banks in an orderly and efficient manner. The receivership and liquidation transactions of closed banks are accounted in separate books of accounts to

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[1] *Excluding externally provided services by 362 personnel.*

ensure that liquidation proceeds of closed banks assets are distributed properly to their respective creditors in accordance with applicable laws and regulations. Also, the income and expenses attributable to receivership/liquidation are accounted for as transactions of the closed banks, and expenses advanced by the Corporation are billed to the respective closed banks.

The financial statements have been prepared on a historical cost basis unless otherwise stated. The financial statements are presented in Philippine Peso which is also the country's functional currency. All values are rounded to the nearest peso unless otherwise stated.

2.2 Use of judgments and estimates

The preparation of the financial statements in accordance with the PFRS requires the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, capital, income and expenses and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties, including:

- The timing and extent of losses the Corporation incurs as a result of future failures of member banks;
- The extent to which the Corporation will pay insurance claims of depositors of member banks that are closed or extend financial assistance to banks in danger of closing;
- The ability to recover its claims receivable and advances based on the trends and expectations of the liquidation of the closed banks;
- The extent to which the Corporation can maximize the sale and recoveries from the assets it acquires as a way of rehabilitating banks and those received as reimbursement of insurance payments and advances to closed banks; and
- The probability of recovery through successful lawsuits as appropriate against relevant parties.

The Corporation classifies financial assets with fixed or determinable payments and fixed maturity as Investment Securities at Amortized Cost. This classification entails judgment in evaluating the intention of the Corporation and its ability to hold such investments to maturity. If the Corporation is no longer consistent with its business model to keep these investments to maturity or has sold government securities exceeding 10 per cent of total portfolio as of the end of the immediately preceding year, it will reassess its business model.

The carrying amount of investments as at December 31, 2018 and 2017 are disclosed in Note 4. There was no impairment loss recognized on investments in 2018 and 2017.

a. Impairment of financial assets

The Corporation recognizes impairment for expected credit loss (ECL) based on PFRS 9 on investments in debt instruments, loans and other receivables that are measured at amortized cost or at fair value through other comprehensive income. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instruments.

The Corporation recognizes lifetime ECL on purchased or credit impaired loans acquired/received from banks under financial assistance or from closed banks in payment of receivables.

The carrying amount of the financial asset is reduced by the impairment loss for all financial assets, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written-off against the allowance account subject to required approval. Subsequent recoveries of amounts previously written off and changes in the carrying amount of the allowance account are recognized in profit and loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be traced objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of loans and receivables as at December 31, 2018 and 2017 are disclosed in Note 6.

b. Impairment of non-financial assets

At each statement of financial position date, the Corporation assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when annual impairment testing for an asset is required, the Corporation makes an estimate of recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The carrying amount of non-current assets held for sale, investment properties and property, plant and equipment as at December 31, 2018 and 2017 are disclosed in Notes 8, 9 and 10, respectively.

c. Estimated useful lives of property and equipment

The Corporation uses the government-prescribed estimated useful lives of Property and Equipment account (Note 2.4d).

d. Contingencies

There may be pending cases where the Corporation is impleaded as party defendant. The estimate of possible adverse judgments of these cases will be based on the assessment of the strength of the defense of the Corporation or advisability of a compromise. The Corporation evaluates whether these legal cases will have material adverse effect on its financial position, thus may have material changes in the estimates in the future based on developments or events.

2.3 Changes in accounting policies and disclosures

The Accounting policies adopted are consistent with those used in the previous financial year.

2.3.1. New and amended standards and interpretations

The new amendment to existing Philippine Financial Reporting Standards (PFRS) which became effective for accounting period beginning on or after January 1, 2018 has impact on the accounting policies and financial statements' presentation and reporting of the Corporation.

- **PFRS 9, Financial Instruments (effective January 1, 2018)**

  PFRS 9 has been completed in stages, with the IASB's phased approach reflected in a number of versions of the standard being issued. The final version of this standard was issued on July 24, 2014 bringing together all the phases of the IASB's project to replace PAS 39 Financial Instruments: Recognition and Measurement and all previous versions of PFRS 9 at its effective date of January 1, 2018 with early adoption permitted.

  The IASB structured the project in three phases: (a) Phase 1 - Classification and measurement for financial assets and financial liabilities, (b) Phase 2 - Impairment, and (c) Phase 3 - Hedge Accounting.

  PFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of PAS 39. Specifically, PFRS 9 requires all financial assets to be classified and subsequently measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

  The Corporation has adopted the Phase 1 of PFRS 9 since its 2013 financial reporting. As required in the standard, investments, loans receivables and loans payable accounts have been revalued and reclassified, as applicable, to reflect the Company's business model and cash flow intention.

  The new impairment requirements are in Phase 2 of PFRS 9 on the ECL model and replaced the PAS 39 on incurred loss model. The ECL shall apply only to credit exposures or debt instruments recorded at amortized costs or debt instruments classified at fair value through other comprehensive income (FVOCI). PFRS does not prescribe a specific measurement method or model for calculating ECL as it will require significant judgment and estimation.

For 2018 Financial Statements, the Corporation adopted the Phase 2 on Impairment recognizing additional impairment loss on applicable financial assets using the ECL Model, thus affecting its book values.

Phase 3 of PFRS 9 which pertains to hedge accounting is not applicable to the Corporation.

2.3.2. Issued PFRS but are not yet effective

The accounting standards issued but not yet effective up to date of issuance of the Corporation's financial statements consists of accounting standards and interpretations issued, which the Corporation reasonably expects to be applicable at a future date.

- **PFRS 16, Leases (effective January 1, 2019)**

  PFRS 16 is effective for accounting periods beginning on or after January 1, 2019. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new guidance may exclude certain contracts previously qualifying as lease or containing a lease under PAS 17 and IFRIC 4.

  This Standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

  The Corporation has yet to assess the financial and presentation impact of this new Standard to the Corporation's financial position and performance. The Corporation intends to adopt this standard when it becomes effective.

2.4 Significant accounting policies

a. Financial assets

Initial recognition

Financial assets are recognized in the Corporation's financial statements when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Corporation's financial assets.

Debt instruments that meet the following conditions are subsequently measured at amortized cost less impairment loss, if any.

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flow; and

- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All recognized financial assets are subsequently measured in their entirety at amortized costs or fair value, depending on the classification of the financial assets.

Classification of financial assets

Financial Assets	Measurement Category
Cash and Cash Equivalent	Amortized Cost
Investment Securities at Amortized Costs	Amortized Cost
Fair Value through Other Comprehensive Income	FVOCI
Receivables	Amortized Cost

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments measured subsequently at amortized cost. Interest income is recognized in profit and loss. Financial assets under this category include Investment Securities at Amortized Cost.

Fair Value through Other Comprehensive Income (FVTOCI)

On initial recognition, the Corporation can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit and loss on disposal of the investments but directly charged to retained earnings.

Derecognition of financial assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit and loss.

On derecognition of financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit and loss, but is reclassified to retained earnings.

b. Assets held for sale

The Corporation is authorized to purchase the non-performing assets of an insured bank as a mode of financial assistance. Acquired assets also include those received from closed banks as payment for Subrogated Claims Receivables and Receivership and Liquidation Expenses. Acquired assets being held for sale and wherein sale is highly probable within a one year period are classified in this account. These are booked at cost with periodic valuation for impairment.

c. Investment property

Included in this account are land or building, or part of a building, or both, held by the Corporation which are awaiting disposal including those under lease agreement. These are initially booked at cost with periodic valuation for impairment.

d. Property, plant and equipment

The Corporation's depreciable properties are stated at cost less accumulated depreciation and amortization. The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred. When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statement of comprehensive income. Depreciable assets below the capitalization threshold of ₱15,000 are recognized as expense.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. This is computed at cost less residual value over useful life. The estimated useful life of the respective asset follows:

Building	30 years
Furniture and Fixtures and Machineries and Equipment	10 years
Transportation Equipment	7 years
Information Technology (Integral Part) and Computer	5 years
Office Equipment	5 years
Leasehold Improvements	3 years

Leasehold improvements are amortized over the shorter of the terms of the covering leases or the estimated useful lives of the improvements.

e. Intangible assets

Intangible assets are stated in the financial statements at cost less accumulated amortization. They comprise software licenses, among others. The Corporation has adopted the straight-line amortization method for the intangible assets over five years.

f. Financial liabilities and Equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

The Notes Payable of PDIC is measured at amortized cost.

f.1 Financial liabilities

Initial recognition

Financial liabilities are initially recognized at fair value, being their issue proceeds, net of transaction costs incurred. Borrowing costs are recognized as expense in the year in which these costs are incurred.

Financial liabilities subsequently measured at amortized cost

Financial liabilities that are not held-for-trading and are not designated as at fair value through profit or loss are measured at amortized cost at subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized costs are determined based on the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid that form an integral part of the effective interest rate, transaction costs and other premiums or discounts through the expected life of the financial liability, or (when appropriate), a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Corporation derecognizes financial liabilities when the Corporation's obligation are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

f.2 Equity

Deposit insurance fund

The Deposit Insurance Fund (DIF) is the capital/equity account of the Corporation and consists of the following: (a) the permanent insurance fund; (b) reserves for insurance losses; and (c) retained earnings. The DIF shall be maintained at a reasonable level to ensure capital adequacy.

Permanent insurance fund

This is the total capital provided by the National Government (NG) by virtue of Republic Act No. 3591, as amended. The full capitalization from the NG of ₱3 billion was reached in 1994 with the conversion of the obligations of PDIC to the Central Bank of the Philippines in the amount of ₱977.787 million into equity of the National Government.

Reserves for insurance losses

PDIC sets aside reserves for insurance losses to build up the Deposit Insurance Fund target ratio of 5.5% to 8% in relation to the insured deposits in the banking system.

Retained earnings

Refers to the cumulative income of the Corporation net of dividends declared to the NG and any prior year's adjustments.

g. Income recognition

Income is recognized to the extent that it is probable that the economic benefits will flow into the Corporation and the income can be reliably measured.

Assessments

Assessment collections from member banks are recognized as income in the year these are received by the Corporation.

Member banks are assessed a maximum rate of one-fifth of one per cent per annum of the assessment base, which is the amount of liability of the bank for deposits as defined under subsection (a) of Section 7 of R.A. 3591, as amended. This shall in no case be less than ₱5,000 and collected on a semestral basis. The amount of assessment is based on the average of deposit liabilities as at the close of business on March 31 and June 30 for the first semester and as at the close of business on September 30 and December 31 for the second semester. Such assessments are payable by banks not later than July 31 of the current year and January 31 of the ensuing year for the first and second semesters, respectively. Failure or refusal by any member bank to pay any assessment due allows the Corporation to file a collection case against the bank and impose administrative sanctions against its officers who are responsible for non-payment. Late payment of assessment is likewise subject to interest and penalty.

Income from investments

Interest on interest-bearing placements and securities are recognized as the interest accrues, taking into account the effective interest rate on such assets.

Income from financial assistance

Interest on loans receivables on account of financial assistance is recognized applying the effective interest using the market rates at initial recognition, as applicable.

h. Dollar-denominated assets

Dollar-denominated assets are initially carried at the equivalent value using Bangko Sentral ng Pilipinas (BSP) reference rate at transaction date and revalued at the end of each month on the same basis.

i. Employee benefits

Provident fund

In accordance with Section 9 (11) of R.A. 3591, as amended, the Corporation has established a Provident Fund, which is a defined contribution plan consisting of contributions made both by its officers and employees and the Corporation. The Fund is administered by its Board of Trustees. Starting December 16, 2009, corporate contribution is vested to the employee based on their length of service in the Corporation, as follows:

Years of Service	Percentage
Less than 1 year	0
1 year but less than 2 years	20
2 years but less than 3 years	30
3 years but less than 4 years	40
4 years but less than 5 years	50
5 years or more	100

Retirement

GSIS retirement benefit under R.A. No. 8291 is available to any qualified employee who is at least 60 years old and with at least 15 years of government service at the time of retirement. R.A. No. 8291 likewise provides for separation benefits.

Separation Benefits

Voluntary or involuntarily separation of employees from service, including payment of separation benefits shall be in accordance with CSC, GSIS and COA rules and regulations and other applicable laws, rules and regulations.

Accrued leave pay

This represents the cash value of the accumulated vacation and sick leave credits of employees, 50 per cent of which can be monetized in accordance with CSC Omnibus Rules of Leave and applicable SOGI on monetization of leaves.

j. Operating lease

Leases in which substantially all risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments, including prepayments made under non-cancellable operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

k. Financial assistance to banks

In accordance with Sec. 22 (e) of R.A. No. 3591, as amended, PDIC may grant financial assistance to a distressed member bank for its rehabilitation to prevent closure, provided such assistance is the least costly alternative. The alternative chosen must not cost more than the estimated cost of actual pay-out of the insured deposits of the bank and liquidation thereof. The financial assistance to a bank may be in the form of a loan, purchase of assets, assumption of liabilities, placements of deposits, equity or quasi-equity. The grant is upon such terms and conditions as the Board of Directors may prescribe when the grant of financial assistance is essential to provide adequate banking service in the community or maintain financial stability in the economy.

l. Provisions and contingencies

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are renewed at the end of reporting period and adjusted to reflect the current best estimate. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

m. Taxes

In accordance with Section 22 (c) of R.A. 3591, as amended, the Corporation shall be exempt from income tax, final withholding tax and local taxes starting June 1, 2014. Income from other sources is still subject to value-added tax. Effective January 1, 2018, PDIC exemption from payment of VAT on assessments collected from member banks has been repealed under Section 86 (ee) of the Republic Act No. 10963 also known as the Tax Reform for Acceleration and Inclusion (TRAIN) law. The VAT obligation under such Act shall be chargeable to the Tax Expenditure Fund (TEF) provided for in the annual General Appropriations Act.

n. Events after the reporting period

Post year-end events that provide additional information about the Corporation’s position at the balance sheet date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. CASH AND CASH EQUIVALENTS

This account includes the following:

	2018	2017
Cash on Hand	1,673,788	1,641,867
Cash in Bank – Local Currency	65,886,450	119,336,005
Cash in Bank – Foreign Currency	347,947	372,940
Cash Equivalents	3,981,689,704	1,213,789,279
	4,049,597,889	**1,335,140,091**

Cash on hand includes petty cash funds, checks and other cash items received after the close of banking hours on the last business day of the year.

Cash in bank consists of bank accounts for operating funds, pay-out funds, collections, emergency drawing accounts and BSP current account.

Cash equivalents refer to short term investments classified as cash equivalents having maturities of three months or less from the date of acquisition/ placement.

4. FINANCIAL ASSETS

This account includes the following:

	2018			2017		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Investment Securities at Amortized Cost	4,792,748,761	176,009,174,694	180,801,923,455	12,254,884,122	151,814,599,171	64,069,483,293
Financial Assets at Fair Value Through Other Comprehensive Income	0	102,629,550	102,629,550	0	11,405,000	11,405,000
	4,792,748,761	**176,111,804,244**	**180,904,553,005**	**12,254,884,122**	**151,826,004,171**	**64,080,888,293**

In accordance with PFRS 9, investment balances are valued at amortized cost consistent with the business model adopted, which is to hold the financial assets to collect the contractual cash flows rather than to sell the instrument prior to its contractual maturity to realize its fair value changes.

Investment securities at amortized cost consist of special savings and time deposits, treasury bills, notes and bonds. Interest income from investment securities at amortized cost amounted to ₱9.692 billion and ₱8.603 billion in 2018 and 2017.

Financial assets at fair value through other comprehensive income (FAFVOCI) consist of Preferred shares and Capital notes.

Preferred shares represent PDIC's subscription to the preferred shares of stock with par value of P100 per share issued by two rural banks on December 28, 2017 and September 24, 2018. The subscription to the bank's preferred shares, which are non-voting, cumulative and convertible to common shares, represents the equity component of the financial assistance granted under the Strengthening Program for Rural Bank Plus.

Capital notes represent PDIC's subscription to the Capital Notes issued by a commercial bank in the amount of ₱12 billion by way of conversion of the latter's outstanding obligations to PDIC on March 31, 2009. The Capital Notes have features consistent with BSP Circular No. 595-2008 on "Interim Tier I Capital for Banks Under Rehabilitation" and are in accordance with the conditions set forth in the Memorandum of Agreement executed for the commercial bank's rehabilitation on July 17 and 25, 2008 and a subsequent amendment thereto on November 21, 2008.

5. OTHER INVESTMENTS

This account includes:

	2018			2017		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Sinking Fund	**3,747,682,948**	**43,319,924,401**	**47,067,607,349**	**5,347,789,230**	**39,879,422,927**	**45,227,212,157**

Sinking fund represents the balance of funds being accumulated to repay PDIC loans upon maturity, a portion of which is being managed by the BSP-Treasury Department.

6. RECEIVABLES

This account includes the following:

	2018			2017		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Loans and Receivable	15,576,117	1,620,899,150	1,636,475,267	13,685,101	1,177,720,805	1,191,405,906
Inter-Agency Receivables	4,809,496	58,338,296	63,147,792	1,500,000	943,568,438	945,068,438
Other Receivables	182,318	557,708	740,026	442,983	3,333,777	3,776,760
	20,567,931	**1,679,795,154**	**1,700,363,085**	**15,628,084**	**2,124,623,020**	**2,140,251,104**

Loans and Receivable

This account includes the following:

	2018			2017		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Notes Receivable	**2,738,898**	**1,454,021,860**	**1,456,760,758**	**5,180,791**	**1,057,478,200**	**1,062,658,991**
Subrogated Claims Receivable	0	63,920,662,233	63,920,662,233	0	62,410,820,399	62,410,820,399
SCR – NG Share	0	0	0	0	(4,871,440,120)	(4,871,440,120)
Allowance for Impairment	0	(63,920,662,233)	(63,920,662,233)	0	(57,539,380,279)	(57,539,380,279)
Net Value	**0**	**0**	**0**	**0**	**0**	**0**
Assigned Receivables	0	12,629,132,020	12,629,132,020	0	12,300,235,987	12,300,235,987
Allowance for Impairment	0	(12,474,949,446)	(12,474,949,446)	0	(12,202,836,199)	(12,202,836,199)
Net Value	**0**	**154,182,574**	**154,182,574**	**0**	**97,399,788**	**97,399,788**
Loans Receivable – Others	0	2,607,583,224	2,607,583,224	0	2,828,934,408	2,828,934,408
Allowance for Impairment	0	(2,602,989,343)	(2,602,989,343)	0	(2,824,340,527)	(2,824,340,527)
Net Value	**0**	**4,593,881**	**4,593,881**	**0**	**4,593,881**	**4,593,881**
Receivership & Liquidation Receivable	0	2,684,435,974	2,684,435,974	0	2,505,547,139	2,505,547,139
Allowance for Impairment	0	(2,684,435,974)	(2,684,435,974)	0	(2,505,547,139)	(2,505,547,139)
Net Value	**0**	**0**	**0**	**0**	**0**	**0**

	2018			2017		
Sales Contract Receivable	6,512,605	12,164,707	18,677,312	6,662,468	23,862,784	30,525,252
Allowance for Impairment	0	(4,063,872)	(4,063,872)	0	(5,613,848)	(5,613,848)
Net Value	**6,512,605**	**8,100,835**	**14,613,440**	**6,662,468**	**18,248,936**	**24,911,404**
Interest Receivable	6,324,614	0	6,324,614	1,841,842	0	1,841,842
Allowance for Impairment	0	0	0	0	0	0
Net Value	**6,324,614**	**0**	**6,324,614**	**1,841,842**	**0**	**1,841,842**
Total	**15,576,117**	**1,620,899,150**	**1,636,475,267**	**13,685,101**	**1,177,720,805**	**1,191,405,906**

Notes receivable represent loans granted to one commercial bank and two rural banks, fully secured by government securities.

Subrogated claims receivable (SCR) arises from payment by the Corporation of insured deposits where the Corporation is subrogated to all rights of the depositor against a closed bank to the extent of such payment. Such subrogation includes the right on the part of the Corporation to receive the same payments and dividends from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to the depositor on a claim for the insured deposits. However, such depositor shall retain his claim for any uninsured portion of his deposit.

Subrogated claims receivable – National Government Share, a contra asset account to SCR, with an accumulated balance of ₱4.871 billion as at December 31, 2017. The balance represents insured deposits paid in excess of the first P250,000 up to P500,000 for each depositor in bank closures from June 1, 2009 to May 31, 2012 until it was reversed to SCR and was likewise fully provided with allowance for impairment. This was based on OGCC Opinion No. 004 s. 2018 that recoveries of PDIC from subrogated claims corresponding to portion of the maximum deposit insurance coverage (MDIC) reimbursed by the NG should redound to the DIF since this was a financial assistance measure in lieu of capital infusion by the NG to PDIC.

Assigned receivables are non-performing loans acquired from banks as a mode of financial assistance and from closed banks in payment of receivables. Interest income is booked upon collection. No interest income is accrued on these loans owing to their past due status.

Loans receivable – others arises from financial assistance by way of non-interest bearing loans and liquidity assistance to four banks that subsequently closed. It also includes loans granted to two commercial banks pursuant to Section 22 (e) of R.A. 3591, as amended. As of December 31, 2018, delivery of transfer documents for the remaining balance is ongoing. No interest income is accrued on these loans owing to their past due status.

Receivership and liquidation receivable (RLR) pertains to expenses advanced by the Corporation in carrying out its mandate as receiver and liquidator of closed banks.

Sales contract receivable are receivables from installment sales of assets acquired from financially assisted banks and from closed banks in payment for subrogated deposits and advances for receivership and liquidation expenses.

Interest receivable pertains to interest accrued from short-term investments.

Inter-Agency Receivables

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Bureau of Internal Revenue	0	0	0	0	885,730,142	885,730,142
National Government	0	58,338,296	58,338,296	0	57,838,296	57,838,296
DBM-Procurement Service	4,809,496	0	4,809,496	1,500,000	0	1,500,000
	4,809,496	58,338,296	63,147,792	1,500,000	943,568,438	945,068,438
Allowance for Impairment Losses	0	0	0	0	0	0
	4,809,496	**58,338,296**	**63,147,792**	**1,500,000**	**943,568,438**	**945,068,438**

Inter-Agency Receivables are receivables from the following agencies:

Bureau of Internal Revenue represents creditable taxes withheld by withholding agents from assessment collections and interests on financial assistance, for refund by the BIR in accordance with the provisions of BIR RR 6-2010.

National Government represents the balance of the share of the NG in insured deposits paid in excess of ₱250,000 up to P500,000 in bank closures from June 1, 2009 to May 31, 2012.

DBM Procurement Service (DBM-PS) represents the revolving fund for the DBM-PS facility used in the purchase of plane tickets for local travel.

Other receivables

This represents other receivables which includes the following:

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Due from Officers and Employees	75,877	6,014,728	6,090,605	280,467	9,354,735	9,635,202
Allowance for Impairment	0	(6,014,728)	(6,014,728)	0	(9,354,735)	(9,354,735)
Net Value	**75,877**	**0**	**75,877**	**280,467**	**0**	**280,467**
Receivables-Disallowance and Charges	46,014	92,028	**138,042**	146,700	0	**146,700**
Allowance for Impairment	0	(92,028)	(92,028)	0	0	0
Net Value	**46,014**	**0**	**46,014**	**146,700**	**0**	**146,700**
Other Receivables	60,427	11,591,427	11,651,854	15,816	65,718,989	65,734,805
Allowance for Impairment	0	(11,033,719)	(11,033,719)	0	(62,385,212)	(62,385,212)
Net Value	**60,427**	**557,708**	**618,135**	**15,816**	**3,333,777**	**3,349,593**
Total	**182,318**	**557,708**	**740,026**	**442,983**	**3,333,777**	**3,776,760**

Aging/Analysis of Receivables

As at December 31, 2018

			Past Due		
Accounts	**Gross Amount**	**Not Past Due**	**< 30 days**	**30-60 days**	**>60 days**
Subrogated Claims Receivables	63,920,662,233	0	0	0	63,920,662,233
Assigned Receivables	12,629,132,020	0	0	0	12,629,132,020
Loans Receivable - Others	2,607,583,224	0	0	0	2,607,583,224
Receivership and Liquidation Receivable	2,684,435,974	0	0	0	2,684,435,974
Notes Receivable	1,456,760,758	1,456,760,758	0	0	0
Inter-Agency Receivables	948,877,934	4,809,496	0	0	944,068,438
Sales Contract Receivables	18,677,312	14,436,668	0	0	4,240,644
Interests Receivable	6,324,614	6,324,614	0	0	0
Other Receivables	17,880,502	5,610,728	77,318	478	12,191,978
	84,290,334,571	**1,487,942,264**	**77,318**	**478**	**82,802,314,511**

7. INVENTORIES

	2018	**2017**
	Inventories Carried at Cost and Net Realizable Value	
Inventory Held for Sale		
Carrying Amount, January 1	54,944	146,592
Additions/Acquisitions during the year	119,398	166,386
Sold during the year except write-down	(174,342)	(258,034)
Carrying Amount, December 31	**0**	**54,944**
Inventory Held for Consumption		
Carrying Amount, January 1	539,467	1,187,368
Additions/Acquisitions during the year	7,062,292	8,326,406
Expenses during the year except write-down	(7,440,626)	(8,974,307)
Carrying Amount, December 31	161,133	539,467
Total Inventories	**161,133**	**594,411**

Inventory held for sale refers to decals and standees bearing the PDIC logo and insurance statement while *Inventory held for consumption* refers to office supplies and materials of the Corporation.

8. ASSETS HELD FOR SALE

This account includes the following:

	2018	2017
Cost		
At January 1	55,616,537	247,524,497
Adjustment	0	0
Disposals	(9,338,246)	(19,487,263)
Reclassification	0	(172,420,697)
At December 31	**46,278,291**	**55,616,537**
Accumulated Impairment Loss		
At January 1	2,105,786	110,651,687
Adjustment	181,053	(37,295,360)
Disposals	(446,093)	(7,479,776)
Reclassification	0	(63,770,765)
At December 31	**1,840,746**	**2,105,786**
Net Book Value		
At December 31	**44,437,545**	**53,510,751**

These represent real and other properties acquired from financially assisted banks and assigned by closed banks in payment for subrogated deposits and advances for receivership and liquidation expenses. These are being held for sale/disposal within a year.

9. INVESTMENT PROPERTY

This account includes the following:

	2018	2017
Cost		
At January 1	2,546,655,564	2,371,855,509
Additions/Acquisitions	236,363,093	67,469,685
Derecognition/Adjustment	(271,050,802)	0
Disposals	(15,105,617)	(65,090,327)
Reclassification	0	(172,420,697)
At December 31	**2,496,862,238**	**2,546,655,564**
Accumulated Impairment Loss		
At January 1	1,248,778,055	1,352,869,035
Additions/Acquisitions	0	0
Derecognition/Adjustment	(490,050,894)	(156,739,298)
Disposals	(4,055,522)	(11,122,446)
Reclassification	0	63,770,764
At December 31	**754,671,639**	**1,248,778,055**
Net Book Value		
At December 31	**1,742,190,599**	**1,297,877,509**

These are real and other properties acquired from financially assisted banks and assigned by closed banks in payment for subrogated deposits and advances for receivership and liquidation expenses for continuing sale/disposal.

10. PROPERTY, PLANT AND EQUIPMENT

This account includes the following:

2018							
Particulars	**Land**	**Buildings**	**Construction in Progress**	**Furniture, Fixtures, Equipment**	**Transportation Equipment**	**Leased Assets Improvements**	**Total**
Cost							
At January 1, 2018	26,206,018	145,317,082	9,316,398	130,861,787	40,591,559	807,693	353,100,537
Additions	0	0	19,998,887	38,409,483	0	0	58,408,370
Disposals/adj./amortizations	0	0		0	0	0	0
At December 31, 2018	**26,206,018**	**145,317,082**	**29,315,285**	**169,271,270**	**40,591,559**	**807,693**	**411,508,907**
Accumulated Depreciation							
At January 1, 2018	0	113,524,947		86,645,130	24,234,117	0	224,404,194
Depreciation/Amortization	0	3,472,402		7,126,836	(2,881,884)	692,308	8,409,662
Disposals/adjustments	0	0		3,051,633	5,945,000	0	8,996,663
At December 31, 2018	**0**	**116,997,349**		**96,823,599**	**27,297,233**	**692,308**	**241,810,489**
Net book value At December 31, 2018	**26,206,018**	**28,319,733**	**29,315,285**	**72,447,671**	**13,294,326**	**115,385**	**169,698,418**

2017							
Particulars	**Land**	**Buildings**	**Construction in Progress**	**Furniture, Fixtures, Equipment**	**Transportation Equipment**	**Leased Assets Improvements**	**Total**
Cost							
At January 1, 2017	26,206,018	145,317,082	0	126,926,215	30,155,559	1,532,98	330,137,859
Additions	0	0	9,316,398	8,886,361	10,436,000	(725,292)	27,913,467
Disposals/adj./amortizations	0	0	0	(4,950,789)	0		(4,950,789)
At December 31, 2017	**26,206,018**	**145,317,082**	**9,316,398**	**130,861,787**	**40,591,559**	**807,693**	**353,100,537**
Accumulated Depreciation							
At January 1, 2016	0	110,052,545		81,369,048	22,632,623	0	214,054,216
Depreciation/Amortization	0	3,472,402		9,544,947	1,601,494	0	14,618,843
Disposals/adjustments	0	0	0	(4,268,865)	0	0	(4,268,865)
At December 31, 2017	**0**	**113,524,947**	**0**	**86,645,130**	**24,234,117**	0	**224,404,194**
Net book value At December 31, 2017	**26,206,018**	**31,792,135**	**9,316,398**	**44,216,657**	**16,357,442**	**807,693**	**128,696,343**

This account includes Corporate property located at Chino Roces Avenue, Makati City, with appraised value of ₱550 million for the land and ₱53.796 million for the building totaling ₱603.796 million.

11. INTANGIBLE ASSETS

This account includes cost of computer software. Any software that is an integral part of the hardware is classified under the Property, Plant and Equipment account.

	2018	2017
Carrying Amount, January 1	21,697,856	41,707,016
Additions – Internally Developed	0	0
Additions – Purchased	3,151,313	27,250
Amortization recognition	(8,977,724)	(10,164,199)
Impairment Loss	0	0
Other Changes		
Reclassification	0	(7,379,461)
Derecognition due to termination of contract	0	(2,492,750)
Carrying Amount, December 31	**15,871,445**	**21,697,856**
Gross Cost	130,550,261	127,398,948
Accumulated Amortization	(114,678,816)	(105,701,092)
Carrying Amount, December 31	**15,871,445**	**21,697,856**

12. OTHER ASSETS

This account includes the following:

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Restricted Fund	295,963,465	512,729	296,476,194	283,777,045	0	283,777,045
Prepayments	36,415,298	138,320,204	174,735,502	10,309,846	105,137,212	115,447,058
Deposits	0	22,368,494	22,368,494	0	22,758,494	22,758,494
Other Assets	177,862	1,474,518,019	1,474,695,881	3,200	1,555,299,973	1,555,303,173
Accumulated Impairment Loss	0	(1,301,327,428)	(1,301,327,428)	0	(1,406,063,196)	(1,406,063,196)
	177,862	173,190,591	173,368,453	3,200	149,236,777	149,239,977
	332,556,625	**334,392,018**	**666,948,643**	**294,090,091**	**277,132,483**	**571,222,574**

Restricted Fund represents the Legal Liability Indemnification Fund held in trust by LBP to finance legal expenses for possible cases against employees and directors of the Corporation in the performance of their duties.

Prepayments include various expenses paid in advance i.e., fidelity bond premiums, insurance, membership dues, repair and maintenance services and subscriptions to be charged in future periods and creditable input tax.

Deposits include miscellaneous assets such as subscriber's investments and deposits with utility companies (SSS, LRA, MERALCO, PLDT, Petron Corp., etc.).

Other Assets represent unserviceable assets for disposal, various assets acquired from financially assisted and closed banks such as chattels, paintings, stocks and club shares, etc. and receivables from the PDIC Provident Fund for advances by the Corporation for the car plan of officers.

13. FINANCIAL LIABILITIES

This account includes the following:

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Notes Payable	29,884,931	68,059,164,893	68,089,049,824	35,617,802	64,201,722,322	64,237,340,124
Insured Deposit Claims Payable	171,186,703	0	171,186,703	180,954,190	0	180,954,190
Accounts Payable	63,667,307	0	63,667,307	54,821,185	0	54,821,185
Due to Officers and Employees	92,309,047	0	92,309,047	44,128,932	0	44,128,932
	357,047,988	**68,059,164,893**	**68,416,212,881**	**315,522,109**	**64,201,722,322**	**64,517,244,431**

Notes Payable represents outstanding loans and interest payable to the Bangko Sentral ng Pilipinas which were utilized to fund financial assistance to operating banks in accordance with Section 22 of R.A. 3591, as amended.

The above balances do not include the amount of principal and interest of ₱1.44 billion and ₱1.136 billion, respectively, claimed by BSP due to an unresolved issue on the interpretation of Section 1.02 in relation to Sec. 1.05 of the Loan Agreement between BSP and PDIC dated November 21, 2002. Under Section 1.02 of the Loan Agreement, an interest rate of two per cent lower than the interest charged to the underlying government loan accounts assigned by way of dacion to PDIC, shall be paid at the end of the following month after receipt of payment. Section 1.05 of the Loan Agreement also provides that the repayment of the BSP loan shall be sourced from collections from the underlying government loan accounts, among others. Interest charges on the BSP funding are only recognized and remitted to BSP upon actual collection from the underlying government loan accounts. The matter had been elevated by BSP to the Department of Justice (DOJ) for resolution and adjudication in a letter dated April 30, 2014. As at December 31, 2018, the case is still pending with the DOJ.

Insured Deposit Claims Payable represents balance of validated insured deposits but unclaimed by concerned depositors.

Accounts Payable refers to the amount due to various suppliers/creditors and payable to the PDIC Provident Fund (PF) representing corporate and employees contributions and loan amortizations deducted from salaries of employees for remittance to PF.

Due to Officers and Employees are composed of accrued leave credits of employees payable upon monetization, retirement or resignation and unpaid salaries and benefits such as loyalty pay, overtime, performance incentive, rice benefit and tax refunds to be paid in the succeeding year.

14. INTER-AGENCY PAYABLES

This account consists of the following:

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Due to BIR	27,452,990	0	27,452,990	31,455,768	0	31,455,768
Due to GSIS	10,470,831	0	10,470,831	10,608,559	0	10,608,559
Due to Philhealth	586,172	0	586,172	491,250	0	491,250
Due to Pag-IBIG	267,232	0	267,232	254,190	0	254,190
	38,777,225	**0**	**38,777,225**	**42,809,767**	**0**	**42,809,767**

Due to Bureau of Internal Revenue (BIR) represents taxes withheld on compensation, professional fees, rental, contractors, suppliers, fringe benefits taxes, tax assessment and other taxes for remittance to BIR;

Due to Government Service Insurance System (GSIS) represents corporate and employees' contributions and loan payments deducted from salaries of employees for remittance to GSIS;

Due to Philhealth represents corporate and employees contributions for remittance to the Philippine Health Insurance Corporation;

Due to Pag-IBIG represents corporate and employees contributions and loan payments deducted from salaries of employees for remittance to Home Development Mutual Fund.

15. TRUST LIABILITIES

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Guarantee/Security Deposits Payable	2,148,385	2,532,256	4,680,641	498,058	4,253,780	4,751,838
Customers' Deposits Payable	1,872,518	0	1,872,518	0	0	0
	4,020,903	2,532,256	6,553,159	498,058	4,253,780	4,751,838

This account includes security, guarantee deposits and bidders' performance bond payable.

16. UNEARNED INCOME

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Unearned Income	**2,564,953**	**2,997,521**	**5,562,474**	**2,448,944**	**6,314,414**	**8,763,358**

This account represents unearned income on sale of acquired assets on installment basis.

17. PROVISIONS

This account represents accrual of money value of the earned leave credits of PDIC personnel.

18. DEFERRED TAX LIABILITIES

This account represents output tax on sale of real properties on installment plan.

19. OTHER PAYABLES

This account consists of the following:

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Dividends Payable	3,227,276,165	0	3,227,276,165	2,844,298,768	0	2,844,298,768
Other Payables	2,305,126	0	2,305,126	21,770,330	2,014,096	23,784,426
	3,229,581,291	**0**	**3,229,581,291**	**2,866,069,098**	**2,014,096**	**2,868,083,194**

Dividends Payable represents dividends due to NG for 2018 income for remittance on the first quarter of the following year.

Other Payables include overpayment by banks which are creditable to subsequent assessment periods.

20. BUSINESS INCOME

	2018	2017
Assessment Income	23,594,390,250	20,991,903,023
Interest Income	9,899,346,659	8,740,336,550
Dividend Income	1,391,966	26,415,531
Fines and Penalties-Business Income	398,451	3,469,367
Rent/Lease Income	3,370,309	2,343,433
Sales Revenue	9,034	98,578
Other Business Income	251,210,900	249,766,500
	33,750,117,569	**30,014,332,982**

21. GAINS

	2018	2017
Gain on Sale of Investment Property	11,639,739	68,499,233
Gain on Foreign Exchange (FOREX)	185,462	0
Gain on Sale of Investments	0	10,112,875
Other Gains	0	672,476,250
	11,825,201	**751,088,358**

22. OTHER NON-OPERATING INCOME

	2018	2017
Reversal of Impairment Loss	298,557,930	611,781,036
Miscellaneous Income	737,742	4,575,572
	299,295,672	**616,356,608**

23. PERSONNEL SERVICES

	2018	2017
Salaries and Wages	454,227,806	456,886,529
Other Compensation	286,859,691	259,120,202
Personnel Benefit Contributions	264,126,473	264,204,207
Other Personnel Benefits	55,947,896	59,302,658
	1,061,161,866	**1,039,513,596**

23.1 Other Compensation

	2018	2017
Year-end Bonus	102,452,589	114,617,368
Productivity Incentive Allowances	49,423,976	23,475,141
Representation Allowance	16,420,375	16,872,750
Transportation Allowance	16,081,831	16,599,608
Overtime and Night Differential	5,475,396	5,739,465
Personnel Economic Relief Allowance	3,472,091	3,596,731
Clothing/Uniform Allowance	3,453,067	2,798,393
Longevity Pay	2,248,262	2,249,829
Other Bonuses and Allowances	87,832,104	73,170,917
	286,859,691	**259,120,202**

23.2 Personnel Benefit Contributions

	2018	2017
Retirement and Life Insurance Premiums	54,824,088	54,312,067
PhilHealth Contributions	3,552,865	2,939,578
Employees Compensation Insurance Premiums	702,300	726,430
Pag-IBIG Contributions	702,100	705,769
Provident/Welfare Fund Contributions	204,345,120	205,520,363
	264,126,473	**264,204,207**

23.3 Other Personnel Benefits

	2018	2017
Terminal Leave Benefits	29,076,416	33,416,170
Other Personnel Benefits	26,871,480	25,886,488
	55,947,896	**59,302,658**

24. MAINTENANCE AND OTHER OPERATING EXPENSES

	2018	2017
Travel Expenses	24,433,769	19,227,850
Training Expenses	4,926,183	3,710,496
Supplies and Materials Expenses	15,643,686	10,807,460
Utility Expenses	53,597,073	45,715,784
Communication Expenses	6,353,396	7,539,112
Confidential, Intelligence and Extraordinary Expenses	7,367,492	6,945,563
Professional Services	40,556,756	39,432,601
General Services	31,800,490	27,877,087
Repairs and Maintenance	6,545,959	5,214,312
Taxes, Insurance Premiums and Other Fees	3,929,371	3,636,490
Other Maintenance and Operating Expenses	141,095,821	136,554,623
	336,249,996	**306,661,378**

24.1 Travel Expenses

	2018	2017
Travel Expenses - Local	17,262,985	11,668,009
Travel Expenses – Foreign	7,170,784	7,559,841
	24,433,769	**19,227,850**

24.2 Supplies and Materials Expenses

	2018	2017
Office Supplies Expenses	7,440,626	8,974,307
Fuel, Oil and Lubricants Expenses	1,456,000	976,931
Drugs and Medicines Expenses	209,598	248,932
Medical, Dental and Laboratory Supplies	68,432	65,445
Semi-Expendable Machinery and Equipment Expenses	4,781,848	0
Semi-Expendable Furniture, Fixtures and Books Expenses	1,079,075	0
Other Supplies and Materials	608,107	541,845
	15,643,686	**10,807,460**

24.3 Utility Expenses

	2018	2017
Electricity Expenses	48,573,392	40,969,722
Water Expenses	5,023,681	4,746,062
	53,597,073	**45,715,784**

24.4 Communication Expenses

	2018	2017
Telephone Expenses	3,521,250	4,634,388
Postage and Courier Services	1,574,456	1,850,790
Internet Subscription Expenses	1,257,690	1,053,934
	6,353,396	**7,539,112**

24.5 Professional Services

	2018	2017
Auditing Services	8,986,553	8,278,589
Consultancy Services	1,790,185	2,634,188
Other Professional Services	29,780,018	28,519,824
	40,556,756	**39,432,601**

24.6 General Services

	2018	2017
Security Services	19,696,603	16,607,871
Janitorial Services	11,043,010	10,238,012
Other General Services	1,060,877	1,031,204
	31,800,490	**27,877,087**

24.7 Repairs and Maintenance

	2018	2017
Repairs and Maintenance-Machinery and Equipment	4,938,928	3,925,793
Repairs and Maintenance-Transportation Equipment	616,301	568,673
Repairs and Maintenance-Leased Assets Improvements	678,862	388,888
Repairs and Maintenance-Buildings and Other Structures	69,268	320,069
Repairs and Maintenance-Furniture and Fixtures	803	10,889
Repairs and Maintenance-Semi-Expendable Equipment	241,797	0
	6,545,959	**5,214,312**

24.8 Taxes, Insurance Premiums and Other Fees

	2018	2017
Fidelity Bond Premiums	2,334,781	2,215,483
Insurance Expenses	1,537,241	1,354,470
Taxes, Duties and Licenses	57,349	66,537
	3,929,371	**3,636,490**

24.9 Other Maintenance and Operating Expenses

	2018	2017
Rent/Lease Expenses	103,692,413	99,536,004
Litigation/Acquired Assets Expenses	15,981,884	15,117,136
Directors and Committee Members' Fees	7,043,674	6,680,589
Subscription Expenses	4,803,058	5,131,223
Advertising, Promotional and Marketing	1,796,129	1,497,790
Membership Dues and Contributions to Organization	995,905	1,100,549
Printing and Publication Expenses	809,046	593,312
Documentary Stamps Expenses	359,589	0
Other Maintenance and Operating Expenses	5,614,123	6,898,020
	141,095,821	**136,554,623**

25. FINANCIAL EXPENSES

	2018	2017
Interest Expenses	3,760,899,480	3,555,717,646
Management Supervision/Trusteeship Fees	287,309	287,986
Bank Charges	82,621	34,566
Other Financial Charges	4,815,214	3,856,589
	3,766,084,624	**3,559,896,787**

26. NON-CASH EXPENSES

	2018	2017
Provision for Insurance Losses	20,052,696,563	19,350,790,870
Depreciation	16,492,811	15,344,135
Amortization – Intangible Assets	8,977,723	10,164,199
Impairment Loss - Other Receivables	351,135,751	8,275
Losses	65,075,168	20,938
	20,494,378,016	**19,376,328,417**

26.1 Losses

	2018	2017
Loss on Sale/Redemption/Transfer of Investments	21	20,938
Other Losses	65,075,147	0
	65,075,168	**20,938**

27. TAXES

The Corporation is exempt from income tax, final withholding tax, and local taxes in pursuant to Section 22 c of R.A. 3591, as amended. R.A. 10963 or the TRAIN law became effective on January 1, 2018 where PDIC is no longer exempt from the payment of VAT on assessment collections but provides that such VAT obligations shall be charged against the TEF of the NG.

In compliance with the requirements of the Bureau of Internal Revenue (BIR) in Revenue Regulation No. 15-2010, hereunder are the information on the taxes, duties and license fees paid in 2018 and 2017:

	2018	2017
Withholding Taxes:		
On Compensation and Benefits	109,967,061	145,958,888
Creditable Withholding Taxes	48,653,405	40,513,373
Final Withholding Taxes	362,049	343,719
Value Added Tax (VAT)	2,829,201,817	15,278,121
Documentary Stamp	359,589	0
BIR Annual Registration Fee	500	500
	2,988,544,421	**202,094,601**

28. DIVIDENDS TO THE NG

Dividends to the NG amounted to ₱3.227 billion and ₱2.844 billion, representing 50 per cent of net income from other sources in 2018 and 2017, respectively.

The Corporation is in the process of resolving the dividend assessment issue of the DOF on PDIC particularly on the allowable deductions from the income subject to dividends. A Memorandum of Agreement (MOA) dated December 21, 2017 was executed between PDIC and DOF where the settlement amount was agreed at ₱23.8 billion. The initial amount of ₱4.8 billion was remitted in December 22, 2017 and the second installment of ₱6.0 billion was remitted in December 14, 2018 subject to the referral to the Department of Justice (DOJ) for opinion/resolution of the issue with regard to the basis of the dividends due to the NG in view of the differences of the parties on the proper application and interpretation of the Dividend Law and the relevant provisions in the PDIC Charter.

29. LEASES

The Corporation leased the premises of the Social Security System at Ayala Avenue, Makati City, which serves as PDIC's principal office for ₱146.073 million and ₱125.205 million as at December 31, 2018 and 2017, respectively**.** The lease is renewable under certain terms and conditions.

30. CONTINGENT LIABILITIES AND OTHER MATTERS

30.1 The following are the pending cases which may result in contingent liabilities as a consequence of adverse judgments that may be rendered:

Claims for deposit insurance

Twenty four (24) cases were filed against the Corporation for payment of deposit insurance in the estimated amount of ₱55.034 million.

Cases subject matter of which are incapable of pecuniary estimation

There are six cases where the Corporation was impleaded as a respondent or defendant, subject matter of which is incapable of pecuniary estimation. These involve acts of the Corporation in its capacity as Receiver/Liquidator.

The above excludes the items in litigation, which were acquired from the banks that were extended financial assistance.

30.2 Estimated insured deposits (EID)

As at December 31, 2018, estimated insured deposits up to the ₱500,000 maximum deposit insurance coverage amounted to ₱2.75 trillion[2], representing 61.24 million accounts. This is equivalent to 22.23 per cent of the total deposits of ₱12.39 trillion in the Philippine Banking System.

30.3 Banks under receivership and liquidation

After the PDIC Board approved the Reports of Termination of the Liquidation of the Assets and Winding-up Operation of the Affairs of 312 closed banks, remaining banks under liquidation by PDIC as of December 31, 2018 stood at 376 closed banks, including the 12 banks closed in 2018. The total estimated realizable value of assets (ERVA) and liabilities of the 376 closed banks amounted to ₱36.31 billion and ₱137.20 billion, respectively. As of December 31, 2017 there were 371 closed banks with ERVA of ₱33.86 billion and liabilities of ₱138.05 billion based on their latest available financial statements.

31. RELATED PARTY TRANSACTION

The Corporation does not have dealings with related parties involving transfer of resources and obligations.

[2] *Based on EID as of September 30, 2018, net of EID of banks closed from October to December 2018*

32. FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial Risk Factors

The Corporation is exposed to a variety of financial risks such as market risk, credit risk, and liquidity risk.
The financial risks are identified, measured and monitored to assess adequately the market circumstances to avoid adverse financial consequences to the Corporation.

Market risk

The Corporation measures and manages its rate sensitivity position to ensure build-up of its investment portfolio. Special emphasis is placed on the change in net interest income that will result from possible fluctuations in interest rates, changes in portfolio mix and tenor.

Credit risk

Credit risk to the Corporation is the risk that the loans granted to operating banks needing financial assistance will not be paid or collected when due, and when investing activities are not prudently exercised to consider risk/reward relationships of market factors and established parameters.

PDIC exercises prudence in the grant of financial assistance based on the provisions of its Charter and its exposures to credit risks cognizant of its mandate to safeguard the interest of the depositing public and contribute to the promotion of financial stability. This is managed through periodic examination of assisted banks and monitoring of the covenants in the loan agreements. The Corporation likewise mitigates such risk through the collateral requirements as part of its sources of payment.

Moreover, the Corporation is allowed to invest only in obligations of the Republic of the Philippines (ROP) or in obligations guaranteed as to principal and interest by the ROP.
The table below provides the analysis of the maximum exposure to credit risk of the Corporation's Notes Receivables before and after taking into account collateral held or other credit enhancements:

	Maximum Exposure	Fair value of collateral or credit enhancement	Net Exposure
		2018	
Notes Receivable	1,456,760,758	1,267,551,029	189,209,729
		2017	
Notes Receivable	1,062,658,991	1,062,390,862	268,129

Liquidity risk

The liquidity risk is the adverse situation when the Corporation encounters difficulty in meeting unconditionally the settlement of insurance calls and its obligations at maturity. Prudent liquidity management requires that liquidity risks are identified, measured, monitored and controlled in a comprehensive and timely manner. Liquidity management is a major component of the corporate-wide risk management system. Liquidity planning takes into consideration various possible changes in economic, market, political, regulatory and other external factors that may affect the liquidity position of Corporation.

The liquidity management policy of the Corporation is conservative in maintaining optimal liquid cash funds to ensure capability to adequately finance its mandated activities and other operational requirements at all times.

The Corporation's funding requirements is generally met through any or a combination of financial modes allowed in the PDIC Charter that would give the most advantageous results. Senior management is actively involved in the Asset Liability Committee headed by the President & CEO with most of the Executive Committee as members.

The Corporation is authorized to borrow from the BSP and from designated depository or fiscal agent of the Philippine Government for insurance and financial assistance purposes.

The table below summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2018.

	On Demand	Up to 3 months	> 3 up to 12 months	> 1 up to 5 years
As at December 31, 2018				
Accounts Payable and Due to Officers and Employees	155,976,354	0	0	0
Insured Deposit Claims Payable	171,186,703	0	0	0
Notes Payable	1,558,232,237	0	0	66,158,028,242
	1,885,395,294	**0**	**0**	**66,158,028,242**
As at December 31, 2017				
Accounts Payable and Due to Officers and Employees	98,950,117	0	0	0
Insured Deposit Claims Payable	180,954,190	0	0	0
Notes Payable	1,566,036,496		98,449,923	62,467,022,364
	1,845,940,803	**0**	**98,449,923**	**62,467,022,364**

	> 5 up to 10 years	> 10 up to 20 years	Over 20 years	Total
As at December 31, 2018				
Accounts Payable and Due to Officers and Employees	0	0	0	155,976,354
Insured Deposit Claims Payable	0	0	0	171,186,703
Notes Payable	260,290,629	0	112,498,716	68,089,049,824
	260,290,629	**0**	**112,498,716**	**68,416,212,881**
As at December 31, 2017				
Accounts Payable and Due to Officers and Employees	0	0	0	98,950,117
Insured Deposit Claims Payable	0	0	0	180,954,190
Notes Payable	0	0	105,831,341	64,237,340,124
	0	**0**	**105,831,341**	**64,517,244,431**

Capital Management

PDIC aims to maintain its Deposit Insurance Fund (DIF) to Estimated Insured Deposits (EID) ratio of at least five and one half per cent to eight percent (5.5% - 8%) which the Corporation's Board of Directors adopted as a measure of capital adequacy since 2017.

The target ratio represents the ability of the Corporation to cover anticipated and unanticipated risks in the banking system to enable it to promptly respond to possible insurance calls and financial assistance to banks, as may be warranted, towards maintaining the faith and confidence in the Country's banking system.

As of December 31, 2018, DIF/EID ratio stood at 5.9% with DIF at ₱164.430 billion over estimated EID at ₱2.786 trillion.

33. RESTATEMENT OF 2017 FINANCIAL STATEMENTS

An adjustment to the beginning balance of Retained Earnings was made based on OGCC Opinion No. 004 s. 2018 that states that recoveries of PDIC from subrogated claims corresponding to portions of the Maximum Deposit Insurance Claims reimbursed by the NG to PDIC should redound to the equity. This involved collections in 2015 of subrogated claims amounting to ₱28.210 million from two closed banks initially recognized as liability.