



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, 2020 and 2019, 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, 2020 and 2019, 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 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 Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, 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 11 to the financial statements which disclosed that Notes Payable to the Bangko Sentral ng Pilipinas (BSP) did not include the principal amount of P1.44 billion and interest of P1.34 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 was elevated by BSP to the Department of Justice (DOJ) for resolution and adjudication. DOJ issued a Resolution dated October 23, 2019 resolving the issues presented. A Notice of Appeal dated November 8, 2019 was filed by PDIC before the Office of the President of the

Philippines. An Appeal Memorandum dated December 9, 2019 was further filed for the DOJ Resolution to be set aside and that the source for the repayment of its loan obligation to BSP be held exclusively limited to those provided for under Section 1.05 of the Loan Agreement. These appeals are awaiting final resolution by the Office of the President and the DOJ. The BSP filed its Comment dated January 17, 2020 declaring the Section 1.05 of the Loan Agreement dated November 21, 2002 is not an Exclusive List; dismissing the appeal of Respondent; and upholding the Resolution dated October 23, 2019 of the Secretary of Justice. 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 24 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 supplementary information is the responsibility of the management of PDIC and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **COMMISSION ON AUDIT**

By:



**LEONILA P. LITERAL**  
State Auditor IV  
OIC-Supervising Auditor

25 June 2021



**PHILIPPINE DEPOSIT INSURANCE CORPORATION**

*Bank deposit mo, protektado!*

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

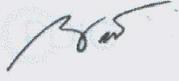
The Management of the Philippine Deposit Insurance Corporation is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2020, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing 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.

  
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Velilla Josefina de  
Jesus  
Date: 2021.06.17  
13:48:51 +08'00'  
**JOSEFINA J. VELILLA**  
First Vice President  
Comptrollership Group

  
Digitally signed by  
Diaz Sandra Arce  
Date: 2021.06.17  
17:57:41 +08'00'  
**SANDRA A. DIAZ**  
Senior Vice President  
Management Services Sector

  
Digitally signed  
by Tan Roberto  
Buan  
Date: 2021.06.21  
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**ROBERTO B. TAN**  
President & CEO

June 17, 2021

**PHILIPPINE DEPOSIT INSURANCE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**As at December 31, 2020 and 2019**  
(In Philippine Peso)

	Note	2020	2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	156,175,605	1,535,143,114
Investments	4	35,213,355,947	38,115,913,709
Receivables	5	17,772,341	17,198,903
Inventories	6	819,296	173,157
Other Current Assets	10	343,410,955	376,434,573
		<b>35,731,534,144</b>	<b>40,044,863,456</b>
<b>Non-Current Assets</b>			
Investments	4	231,451,869,677	228,000,472,830
Receivables	5	2,296,355,026	2,613,393,152
Investment Property	7	1,803,715,929	1,825,343,796
Property, Plant and Equipment	8	258,287,065	151,967,981
Intangible Assets	9	8,552,375	11,003,350
Other Non-Current Assets	10	481,262,624	473,150,623
		<b>236,300,042,696</b>	<b>233,075,331,732</b>
<b>Total Assets</b>		<b>272,031,576,840</b>	<b>273,120,195,188</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Financial Liabilities	11	37,338,093,912	21,250,895,436
Inter-Agency Payables	12	38,937,033	32,731,937
Trust Liabilities	13	14,990,841	3,955,382
Unearned Income	14	1,105,329	2,365,873
Other Payables	16	4,916,570,040	4,328,490,289
		<b>42,309,697,155</b>	<b>25,618,438,917</b>
<b>Non-Current Liabilities</b>			
Financial Liabilities	11	14,694,667,830	50,736,842,688
Trust Liabilities	13	5,275,254	4,083,068
Unearned Income	14	461,572	1,114,519
Provisions	15	268,546,576	240,945,007
		<b>14,968,951,232</b>	<b>50,982,985,282</b>
<b>Total Liabilities</b>		<b>57,278,648,387</b>	<b>76,601,424,199</b>
<b>EQUITY</b>			
Government Equity (Permanent Insurance Fund)		3,000,000,000	3,000,000,000
Reserves for Insurance Losses		195,720,867,017	168,736,229,639
Retained Earnings		16,032,061,436	24,782,541,350
<b>Total Equity</b>		<b>214,752,928,453</b>	<b>196,518,770,989</b>
<b>Total Liabilities and Equity</b>		<b>272,031,576,840</b>	<b>273,120,195,188</b>

*The notes on pages 9 to 37 form part of these statements.*

**PHILIPPINE DEPOSIT INSURANCE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Years Ended December 31, 2020 and 2019**  
(In Philippine Peso)

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Income</b>			
Business Income	17	39,729,771,091	37,330,911,584
Gains	18	1,778,350,795	28,200,250
Other Non-Operating Income	19	225,629,555	553,443,464
<b>Total Income</b>		<b>41,733,751,441</b>	<b>37,912,555,298</b>
<b>Expenses</b>			
Personnel Services	20	995,204,135	969,066,399
Maintenance and Other Operating Expenses	21	381,805,176	387,850,727
Deposit Claims Pay-out Expenses		219,677,807	1,241,238,669
Receivership and Liquidation Expenses		249,311,982	269,052,676
Financial Expenses	22	2,984,221,845	3,471,532,064
Non-Cash Expenses	23	27,087,896,080	22,924,365,177
<b>Total Expenses</b>		<b>31,918,117,025</b>	<b>29,263,105,712</b>
<b>Net Income</b>		<b>9,815,634,416</b>	<b>8,649,449,586</b>
Other Comprehensive Income for the Period		0	0
<b>Total Comprehensive Income</b>		<b>9,815,634,416</b>	<b>8,649,449,586</b>

*The notes on pages 9 to 37 form part of these statements.*

**PHILIPPINE DEPOSIT INSURANCE CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**  
**For the Years Ended December 31, 2020 and 2019**  
(In Philippine Peso)

	Note	Permanent Insurance Fund	Reserves for Insurance Losses	Retained Earnings	Total
<b>BALANCE AT JANUARY 1, 2019</b>		<b>3,000,000,000</b>	<b>146,057,190,935</b>	<b>27,813,339,916</b>	<b>176,870,530,851</b>
<b>CHANGES IN EQUITY FOR 2019</b>					
Add/(Deduct):					
Additional reserves for insurance losses	23		22,679,038,704		22,679,038,704
Net Income for the period				8,649,449,586	8,649,449,586
Declaration of cash dividends	25			(11,680,248,152)	(11,680,248,152)
<b>BALANCE AT DECEMBER 31, 2019</b>		<b>3,000,000,000</b>	<b>168,736,229,639</b>	<b>24,782,541,350</b>	<b>196,518,770,989</b>
<b>CHANGES IN EQUITY FOR 2020</b>					
Add/(Deduct):					
Additional reserves for insurance losses	23		26,984,637,378		26,984,637,378
Net Income for the period				9,815,634,416	9,815,634,416
Declaration of cash dividends	25			(18,566,114,330)	(18,566,114,330)
<b>BALANCE AT DECEMBER 31, 2020</b>		<b>3,000,000,000</b>	<b>195,720,867,017</b>	<b>16,032,061,436</b>	<b>214,752,928,453</b>

*The notes on pages 9 to 37 form part of these statements.*

**PHILIPPINE DEPOSIT INSURANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2020 and 2019**  
(In Philippine Peso)

	Note	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Collection of Income/Revenue		41,048,051,732	37,811,592,080
Collection of Receivables		676,067,421	467,759,889
		<b>41,724,119,153</b>	<b>38,279,351,969</b>
<b>Cash Outflows</b>			
Payment of Expenses		(5,766,091,360)	(1,354,206,417)
Payment of Insured Deposits		(178,623,847)	(1,229,283,700)
Grant of Cash Advances and Various Receivables		(16,419,821)	(24,232,922)
Payment of Accounts Payable		(86,093,443)	(218,540,702)
Grant of Financial Assistance		0	(677,884,947)
Payment of Receivership and Liquidation Expenses		(1,298,500)	(13,710,538)
Payment of Taxes, Duties and Licenses		(42,531)	(4,455,933)
		<b>(6,048,569,502)</b>	<b>(3,522,315,159)</b>
<b>Net Cash Provided by Operating Activities</b>		<b>35,675,549,651</b>	<b>34,757,036,810</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Proceeds from Matured Investments		138,335,208,791	98,114,354,063
Proceeds from Disposal of Property, Plant and Equipment		245,445	0
		<b>138,335,454,236</b>	<b>98,114,354,063</b>
<b>Cash Outflows</b>			
Purchase of Investments		(139,775,555,860)	(125,094,570,748)
Purchase/Construction of Property, Plant and Equipment		(114,133,431)	(34,696,795)
		<b>(139,889,689,291)</b>	<b>(125,129,267,543)</b>
<b>Net Cash Used in Investing Activities</b>		<b>(1,554,235,055)</b>	<b>(27,014,913,480)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Proceeds from Long-term Liabilities to BSP		0	338,942,474
<b>Cash Outflows</b>			
Payment of Cash Dividends		(17,983,021,916)	(10,582,799,524)
Payment of Long-term Liabilities to BSP		(17,517,252,915)	(12,705,628)
		<b>(35,500,274,831)</b>	<b>(10,595,505,152)</b>
<b>Net Cash Used in Financing Activities</b>		<b>(35,500,274,831)</b>	<b>(10,256,562,678)</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,378,960,235)</b>	<b>(2,514,439,348)</b>
Effects of Exchange Rate Changes on Cash and Cash Equivalents		(7,274)	(15,427)
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>		1,535,143,114	4,049,597,889
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>3</b>	<b>156,175,605</b>	<b>1,535,143,114</b>

The notes on pages 9 to 37 form part of these statements.

**PHILIPPINE DEPOSIT INSURANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2020 and 2019  
(All amounts in Philippine Peso unless otherwise stated)

**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 Bangko Sentral ng Pilipinas (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, 2020, PDIC's total manpower<sup>1</sup> complement stood at 528 (184 officers and 344 rank and file employees), 518 of whom are of permanent status, two contractual and eight are coterminous. Under the PDIC Charter, as amended by R.A. 10846, the President of the Corporation shall be appointed by the President of the Philippines for a term of six 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 six years, and two are ex-officio, the Secretary of Finance and the Governor of the BSP.

The Board of Directors authorized the issuance of the financial statements on February 8, 2021.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Statement of Compliance and Basis of financial statements preparation**

The Corporation's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PASs) 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 ensure that liquidation proceeds of closed banks assets, if any, are distributed properly

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<sup>1</sup> Excluding externally provided services by 264 personnel.

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 PFRSs 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, 2020 and 2019 are disclosed in Note 4. There was no impairment loss recognized on investments in 2020 and 2019.

#### **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. 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 financial asset 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, 2020 and 2019 are disclosed in Note 5.

#### **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 investment properties, property, plant and equipment and intangible assets as at December 31, 2020 and 2019 are disclosed in Notes 7, 8, and 9 respectively.

#### **c. Estimated useful lives of property, plant and equipment**

The Corporation uses the government-prescribed estimated useful lives of Property, Plant 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 (PFRSs) which became effective for accounting period beginning on or after January 1, 2020 but has no impact on the accounting policies and financial statements' presentation and reporting of the Corporation.

Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, clarify the definition of 'material' and how it should be applied. The changes are effective from 1 January 2020 but entities can decide to apply them earlier. The amendments also improve the explanations of the definition and ensure consistency across all PFRSs. The new definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

PAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific PFRSs applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis. The amendment is effective for annual reporting periods beginning on or after January 1, 2020.

### *2.3.2. Issued PFRSs but are not yet effective*

The accounting standards issued but not yet effective up to date of issuance of the Corporation's financial statements are not reasonably expected to be applicable at a future date.

- Amendments to PAS 16 Property, Plant and Equipment — Proceeds before Intended Use (effective for annual periods beginning on or after January 1, 2022 with early application permitted).
- Amendments to PAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts - Cost of Fulfilling a Contract (effective for annual periods beginning on or after January 1, 2022 with early application permitted).

- Amendments to PFRS 4 Insurance Contracts – Extension of the Temporary Exemption from Applying PFRS 9.
- PFRS 17 Insurance Contracts. The standard is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

## 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 an 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 Equivalents	Amortized Cost
Investment Securities at Amortized Costs*	Amortized Cost
Fair Value through Other Comprehensive Income	FVTOCI
Receivables	Amortized Cost

\*including earmarked funds for loans payment

#### 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 added or 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 charged to retained earnings.

#### **b. Inventories**

Inventories are measured at cost upon initial recognition and recognized as an expense when used for consumption in the ordinary course of operations or distributed to insured banks.

#### **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 and subsequently measured at cost net of allowance 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 when issued to end users.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. This is computed at cost less 10 per cent 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, Buildings	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 NG.

### Reserves for insurance losses

PDIC sets aside reserves for insurance losses to build-up the DIF target ratio of 5.5 per cent to eight per cent over the estimated insured deposits in the Philippine 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.

### Interest Income

#### *a. 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.

#### *b. 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 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 where contributions made both by its officers and employees and the Corporation are accumulated. The Fund is administered by its Board of Trustees.

### 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 guidelines on monetization of leaves.

## **j. Leases**

### *PDIC as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in profit or loss as part of Rent/Lease Income account in the statement of comprehensive income on a straight-line basis over the lease term.

### *PDIC as Lessee*

PDIC has elected to account for short-term leases using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense as incurred.

## **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, value-added tax (VAT) on assessments collected from member banks, and local taxes starting June 1, 2014. Incomes from other sources are still subject to VAT. 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:

	<b>2020</b>	<b>2019</b>
Cash on Hand	1,558,353	2,224,370
Cash in Bank – Local Currency	90,396,481	84,427,795
Cash in Bank – Foreign Currency	302,898	320,039
Cash Equivalents	63,917,873	1,448,170,910
	<b>156,175,605</b>	<b>1,535,143,114</b>

*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. INVESTMENTS

This account includes the following:

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Investment Securities at Amortized Cost	20,512,565,130	202,954,327,485	223,466,892,615	23,668,900,519	181,321,383,482	204,990,284,001
Sinking Fund	14,700,790,817	16,394,912,642	31,095,703,459	14,447,013,190	34,576,459,798	49,023,472,988
Financial Assets at Fair Value Through Other Comprehensive Income	0	12,102,629,550	12,102,629,550	0	12,102,629,550	12,102,629,550
	<b>35,213,355,947</b>	<b>231,451,869,677</b>	<b>266,665,225,624</b>	<b>38,115,913,709</b>	<b>228,000,472,830</b>	<b>266,116,386,539</b>

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 ₱ 11.741 billion and ₱11.392 billion in 2020 and 2019.

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

*Financial assets at fair value through other comprehensive income* consist of Preferred shares and Special Preferred Shares of Capital Stock.

*Preferred shares* represent PDIC's subscription to the preferred shares of stock with par value of ₱100 and ₱10 per share issued by two rural banks on December 28, 2017 and September 24, 2018. The subscription to the banks' 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.

Likewise, the PDIC holds Special Preferred Shares (SPS) of Capital Stock issued by a commercial bank in favor of PDIC on July 8, 2019 by way of conversion of the bank's Capital Notes in the amount of ₱12 billion, which, the PDIC Board resolved to exercise its right to convert the Capital Notes into SPS of the bank at the conversion price on May 10, 2019. The SPS are with a par value of ₱1.00 per share and are voting, perpetual, convertible to common stock and non-cumulative.

#### 5. RECEIVABLES

This account includes the following:

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Loans and Receivable-net	6,657,091	2,238,016,730	2,244,673,821	12,506,415	2,555,054,856	2,567,561,271
Inter-Agency Receivables-net	10,492,523	58,338,296	68,830,819	4,660,296	58,338,296	62,998,592
Other Receivables-net	622,727	0	622,727	32,192	0	32,192
	<b>17,772,341</b>	<b>2,296,355,026</b>	<b>2,314,127,367</b>	<b>17,198,903</b>	<b>2,613,393,152</b>	<b>2,630,592,055</b>

## Loans and Receivables

This account includes the following:

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Notes Receivable	2,927,957	1,630,158,596	1,633,086,553	2,978,675	1,951,673,084	1,954,651,759
Subrogated Claims Receivable	0	64,602,316,882	64,602,316,882	0	64,866,996,330	64,866,996,330
Allowance for Impairment	0	(64,602,316,882)	(64,602,316,882)	0	(64,866,996,330)	(64,866,996,330)
<b>Net Value</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Assigned Loans Receivables	0	12,611,245,129	12,611,245,129	0	12,622,873,453	12,622,873,453
Allowance for Impairment	0	(12,011,951,158)	(12,011,951,158)	0	(12,029,781,687)	(12,029,781,687)
<b>Net Value</b>	<b>0</b>	<b>599,293,971</b>	<b>599,293,971</b>	<b>0</b>	<b>593,091,766</b>	<b>593,091,766</b>
Loans Receivable – Others	0	2,610,164,962	2,610,164,962	0	2,582,856,581	2,582,856,581
Allowance for Impairment	0	(2,605,571,081)	(2,605,571,081)	0	(2,578,262,700)	(2,578,262,700)
<b>Net Value</b>	<b>0</b>	<b>4,593,881</b>	<b>4,593,881</b>	<b>0</b>	<b>4,593,881</b>	<b>4,593,881</b>
Receivership and Liquidation Receivable	0	3,065,672,662	3,065,672,662	0	2,842,239,383	2,842,239,383
Allowance for Impairment	0	(3,065,672,662)	(3,065,672,662)	0	(2,842,239,383)	(2,842,239,383)
<b>Net Value</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Sales Contract Receivable	3,724,902	4,006,070	7,730,972	6,852,289	5,855,883	12,708,172
Allowance for Impairment	0	(35,788)	(35,788)	0	(159,758)	(159,758)
<b>Net Value</b>	<b>3,724,902</b>	<b>3,970,282</b>	<b>7,695,184</b>	<b>6,852,289</b>	<b>5,696,125</b>	<b>12,548,414</b>
Interest Receivable	4,232	0	4,232	2,675,451	0	2,675,451
<b>Total</b>	<b>6,657,091</b>	<b>2,238,016,730</b>	<b>2,244,673,821</b>	<b>12,506,415</b>	<b>2,555,054,856</b>	<b>2,567,561,271</b>

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

*Subrogated claims receivable* 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.

*Assigned loans 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 one commercial bank pursuant to Section 22 (e) of R.A. 3591, as amended. As of December 31, 2020, 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* 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/or advances for receivership and liquidation expenses.

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

### Inter-Agency Receivables

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Bureau of Internal Revenue	0	885,730,142	885,730,142	0	885,730,142	885,730,142
National Government	0	58,338,296	58,338,296	0	58,338,296	58,338,296
DBM-Procurement Service	10,492,523	0	10,492,523	4,660,296	0	4,660,296
	10,492,523	944,068,438	954,560,961	4,660,296	944,068,438	948,728,734
Allowance for Impairment	0	(885,730,142)	(885,730,142)	0	(885,730,142)	(885,730,142)
	<b>10,492,523</b>	<b>58,338,296</b>	<b>68,830,819</b>	<b>4,660,296</b>	<b>58,338,296</b>	<b>62,998,592</b>

Inter-Agency Receivables are receivables from the following agencies:

*Bureau of Internal Revenue (BIR)* 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 (NG)* represents the balance of the share of the NG in insured deposits paid in excess of ₱250,000 up to ₱500,000 in bank closures from June 1, 2009 to May 31, 2012 in accordance with the PDIC Charter.

*DBM Procurement Service (DBM-PS)* represents the revolving fund maintained for the DBM-PS facility used in the purchase of plane tickets for local travel. This balance also includes advance payments for the procurement of supplies, materials and equipment from DBM-PS.

### Other receivables

This represents other receivables which includes the following:

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Due from Officers and Employees	79,713	8,539,069	8,618,782	15,201	5,779,344	5,794,545
Allowance for Impairment	0	(8,539,069)	(8,539,069)	0	(5,779,344)	(5,779,344)
<b>Net Value</b>	<b>79,713</b>	<b>0</b>	<b>79,713</b>	<b>15,201</b>	<b>0</b>	<b>15,201</b>
Receivables-Disallowance and Charges	0	92,028	92,028	0	92,028	92,028
Allowance for Impairment	0	(92,028)	(92,028)	0	(92,028)	(92,028)
<b>Net Value</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other Receivables	543,014	4,546,892	5,089,906	16,991	4,491,351	4,508,342
Allowance for Impairment	0	(4,546,892)	(4,546,892)	0	(4,491,351)	(4,491,351)
<b>Net Value</b>	<b>543,014</b>	<b>0</b>	<b>543,014</b>	<b>16,991</b>	<b>0</b>	<b>16,991</b>
<b>Total</b>	<b>622,727</b>	<b>0</b>	<b>622,727</b>	<b>32,192</b>	<b>0</b>	<b>32,192</b>

## Aging/Analysis of Receivables

As at December 31, 2020

Accounts	Gross Amount	Not Past Due	Past Due		
			< 30 days	30-60 days	>60 days
Notes Receivable	1,633,086,553	1,633,086,553	0	0	0
Subrogated Claims Receivables	64,602,316,882	0	0	0	64,602,316,882
Assigned Loans Receivables	12,611,245,129	0	0	0	12,611,245,129
Loans Receivable - Others	2,610,164,962	0	0	0	2,610,164,962
Receivership and Liquidation Receivable	3,065,672,662	0	0	0	3,065,672,662
Sales Contract Receivables	7,730,972	5,223,520	0	0	2,507,452
Interest Receivable	4,232	4,232	0	0	0
Inter-Agency Receivables	954,560,961	10,492,523	0	0	944,068,438
Other Receivables	13,800,716	0	215,726	150,752	13,434,238
	<b>85,498,583,069</b>	<b>1,648,806,828</b>	<b>215,726</b>	<b>150,752</b>	<b>83,849,409,763</b>

## 6. INVENTORIES

	2020	2019
<b>Inventory Held for Consumption</b>		
Balance, January 1	173,157	161,133
Additions/Acquisitions during the year	2,853,138	9,622,965
Expensed during the year	(2,206,999)	(9,610,941)
<b>Balance, December 31</b>	<b>819,296</b>	<b>173,157</b>

*Inventory held for consumption* refers to office supplies and materials of the Corporation including decals and standees for distribution to insured bank.

## 7. INVESTMENT PROPERTY

This account includes the following:

	2020	2019
Carrying Amount, January 1	1,825,343,796	1,742,190,599
Addition/Acquisition	0	51,897,000
Transfers/Reversals	0	(831,391)
Total	1,825,343,796	1,793,256,208
Disposals	(22,972,291)	(11,947,380)
Reversal of Allowance for Impairment Loss	1,344,424	0
Reclassification	0	44,034,968
<b>Carrying Amount, December 31</b>	<b>1,803,715,929</b>	<b>1,825,343,796</b>
Gross Cost	2,557,355,604	2,580,327,895
Accumulated Impairment Loss	(753,639,675)	(754,984,099)
<b>Carrying Amount, December 31</b>	<b>1,803,715,929</b>	<b>1,825,343,796</b>

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. Request for replacement on the 23 properties with a book value of ₱240,400,434.71 have been coordinated thru letters dated March 10 and November 20, 2020 from one of the financially assisted banks.

## 8. PROPERTY, PLANT AND EQUIPMENT

This account includes the following:

2020							
Particulars	Land	Buildings	Construction in Progress- Buildings and Other Structures	Furniture, Fixtures, Equipment	Transportation Equipment	Leased Assets Improvements, Buildings	Total
<b>Cost</b>							
At January 1, 2020	26,206,018	145,317,082	31,729,705	157,105,134	28,031,959	864,152	389,254,050
Additions	0	0	105,647,055	18,263,756	3,269,732	0	127,180,543
Disposals/adjustments	0	0	0	(2,253,952)	(2,628,000)	0	(4,881,952)
<b>At December 31, 2020</b>	<b>26,206,018</b>	<b>145,317,082</b>	<b>137,376,760</b>	<b>173,114,938</b>	<b>28,673,691</b>	<b>864,152</b>	<b>511,552,641</b>
<b>Accumulated Depreciation</b>							
At January 1, 2020	0	120,469,751	0	98,131,506	17,867,710	817,102	237,286,069
Depreciation/Amortization	0	3,472,400	0	14,279,125	2,468,617	47,050	20,267,192
Disposals/adjustments	0	0	0	(1,922,484)	(2,365,201)	0	(4,287,685)
<b>At December 31, 2020</b>	<b>0</b>	<b>123,942,151</b>	<b>0</b>	<b>110,488,147</b>	<b>17,971,126</b>	<b>864,152</b>	<b>253,265,576</b>
<b>Net book value</b>							
<b>At December 31, 2020</b>	<b>26,206,018</b>	<b>21,374,931</b>	<b>137,376,760</b>	<b>62,626,791</b>	<b>10,702,565</b>	<b>0</b>	<b>258,287,065</b>
2019							
Particulars	Land	Buildings	Construction in Progress- Buildings and Other Structures	Furniture, Fixtures, Equipment	Transportation Equipment	Leased Assets Improvements, Buildings	Total
<b>Cost</b>							
At January 1, 2019	26,206,018	145,317,082	29,315,285	166,219,637	34,646,559	807,693	402,512,274
Additions	0	0	2,414,420	2,164,419	0	56,459	4,635,298
Disposals/adjustments	0	0	0	(11,278,922)	(6,614,600)	(0)	(17,893,522)
<b>At December 31, 2019</b>	<b>26,206,018</b>	<b>145,317,082</b>	<b>31,729,705</b>	<b>157,105,134</b>	<b>28,031,959</b>	<b>864,152</b>	<b>389,254,050</b>
<b>Accumulated Depreciation</b>							
At January 1, 2019	0	116,997,349	0	93,771,966	21,352,233	692,308	232,813,856
Depreciation/Amortization	0	3,472,402	0	14,458,540	2,468,617	124,794	20,524,353
Disposals/adjustments	0	0	0	(10,099,000)	(5,953,140)	(0)	(16,052,140)
<b>At December 31, 2019</b>	<b>0</b>	<b>120,469,751</b>	<b>0</b>	<b>98,131,506</b>	<b>17,867,710</b>	<b>817,102</b>	<b>237,286,069</b>
<b>Net book value</b>							
<b>At December 31, 2019</b>	<b>26,206,018</b>	<b>24,847,331</b>	<b>31,729,705</b>	<b>58,973,628</b>	<b>10,164,249</b>	<b>47,050</b>	<b>151,967,981</b>

This account includes Corporate property located at Chino Roces Avenue, Makati City, with appraised value of ₱1 billion for the land and ₱206 million for the building totaling ₱1.206 billion.

## 9. 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.

	2020	2019
Carrying Amount, January 1	11,003,350	15,871,445
Addition – Purchased	2,958,036	2,452,687
Total	13,961,386	18,324,132
Amortization	(5,409,011)	(7,320,782)
<b>Carrying Amount, December 31</b>	<b>8,552,375</b>	<b>11,003,350</b>
Gross Cost	135,960,984	133,002,948
Accumulated Amortization	(127,408,609)	(121,999,598)
<b>Carrying Amount, December 31</b>	<b>8,552,375</b>	<b>11,003,350</b>

## 10. OTHER ASSETS

This account includes the following:

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Restricted Fund	321,370,038	12,905,653	334,275,691	310,189,701	6,787,822	316,977,523
Prepayments	21,211,981	172,788,479	194,000,460	65,437,973	171,676,201	237,114,174
Deposits	0	29,586,273	29,586,273	0	28,704,381	28,704,381
Other Assets	828,936	1,444,746,817	1,445,575,753	806,899	1,444,746,817	1,445,553,716
Accumulated Impairment- Other Assets	0	(1,178,764,598)	(1,178,764,598)	0	(1,178,764,598)	(1,178,764,598)
	<b>343,410,955</b>	<b>481,262,624</b>	<b>824,673,579</b>	<b>376,434,573</b>	<b>473,150,623</b>	<b>849,585,196</b>

*Restricted Fund* represents the Legal Liability Indemnification Fund held in trust by Land Bank of the Philippines Trust Banking Group 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., mobilization fees, 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.

## 11. FINANCIAL LIABILITIES

This account includes the following:

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Notes Payable	36,970,354,777	14,694,667,830	51,665,022,607	20,948,172,885	50,736,842,688	71,685,015,573
Insured Deposit						
Claims Payable	224,532,648	0	224,532,648	183,118,541	0	183,118,541
Accounts Payable	85,735,482	0	85,735,482	75,470,677	0	75,470,677
Due to Officers and Employees	57,471,005	0	57,471,005	44,133,333	0	44,133,333
	<b>37,338,093,912</b>	<b>14,694,667,830</b>	<b>52,032,761,742</b>	<b>21,250,895,436</b>	<b>50,736,842,688</b>	<b>71,987,738,124</b>

*Notes Payable* represents outstanding loans and interest payable to the Bangko Sentral ng Pilipinas (BSP) which were utilized to fund financial assistance to operating or acquirer 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 ₱ 1.34 billion, respectively, claimed by BSP due to an 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 was elevated by BSP to the Department of Justice (DOJ) for resolution and adjudication and on October 23, 2019, DOJ issued a resolution resolving the issues presented. The PDIC filed on November 8, 2019 its Notice of Appeal with the Office of the President of the Philippines of the DOJ Resolution dated October 23, 2019. Moreover, the PDIC filed its Appeal Memorandum dated December 9, 2019 for the October 23, 2019 DOJ Resolution to be set aside and that the source for the repayment of its loan obligation to BSP be held exclusively limited to those provided for under Section 1.05 of the Loan Agreement. On the other hand, the BSP filed its Comment dated January 17, 2020 for the DOJ Office issue and order: (a) declaring the Section 1.05 of the Loan Agreement dated November 21, 2002 is not an Exclusive List; (b) Dismissing the appeal of Respondent; and (c) Upholding the Resolution dated October 23, 2019 of the Secretary of Justice.

*Insured Deposit Claims Payable* represents balance of validated insured deposits but unclaimed by concerned depositors. The balance excludes the estimated insured deposit liabilities at ₱1.29 billion based on the latest report to PDIC of one bank which was closed and placed under the liquidation of the PDIC by the Monetary Board in November 2019. Subsequently, the Court of Appeals nullified the order of closure in September 2020. However, the Decision of the Court of Appeals has not yet attained finality.

*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 in the following month to PF.

*Due to Officers and Employees* are composed of employees' unpaid salaries and benefits such as loyalty pay, overtime, performance incentive, rice benefit and tax refunds to be paid in the succeeding year.

## 12. INTER-AGENCY PAYABLES

This account consists of the following:

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Due to BIR	30,049,402	0	30,049,402	21,563,830	0	21,563,830
Due to GSIS	7,864,209	0	7,864,209	10,244,399	0	10,244,399
Due to Philhealth	805,532	0	805,532	658,490	0	658,490
Due to Pag-IBIG	217,890	0	217,890	265,218	0	265,218
	<b>38,937,033</b>	<b>0</b>	<b>38,937,033</b>	<b>32,731,937</b>	<b>0</b>	<b>32,731,937</b>

*Due to Bureau of Internal Revenue (BIR)* represents taxes withheld on compensation, professional fees, rental, contractors, suppliers, fringe benefits taxes and other taxes for remittance to BIR in the following month.

*Due to Government Service Insurance System (GSIS)* represents corporate and employees' contributions and loan payments deducted from salaries of employees for remittance to GSIS in the following month.

*Due to Philhealth* represents corporate and employees contributions for remittance to the Philippine Health Insurance Corporation in the following month.

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

## 13. TRUST LIABILITIES

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Guarantee/Security Deposits Payable	12,360,572	5,219,254	17,579,826	1,387,977	4,027,068	5,415,045
Customers' Deposits Payable	2,630,269	56,000	2,686,269	2,567,405	56,000	2,623,405
	<b>14,990,841</b>	<b>5,275,254</b>	<b>20,266,095</b>	<b>3,955,382</b>	<b>4,083,068</b>	<b>8,038,450</b>

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

## 14. UNEARNED INCOME

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Unearned Income	1,105,329	461,572	1,566,901	2,365,873	1,114,519	3,480,392

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

## 15. PROVISIONS

This account represents accrual of money value of the earned leave credits of PDIC personnel payable upon monetization, retirement or resignation.

## 16. OTHER PAYABLES

This account consists of the following:

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
Dividends Payable	4,907,817,208	0	4,907,817,208	4,324,724,793	0	4,324,724,793
Other Payables	8,752,832	0	8,752,832	3,765,496	0	3,765,496
	<b>4,916,570,040</b>	<b>0</b>	<b>4,916,570,040</b>	<b>4,328,490,289</b>	<b>0</b>	<b>4,328,490,289</b>

*Dividends Payable* represents dividends due to NG for 2020 income for remittance on the first quarter of the following year.

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

## 17. BUSINESS INCOME

	2020	2019
Assessment Income	27,515,619,478	25,380,900,767
Interest Income	11,938,372,578	11,663,892,339
Dividend Income	14,778,969	20,475,493
Rent/Lease Income	3,371,628	4,107,053
Fines and Penalties-Business Income	216,238	3,086,932
Other Business Income	257,412,200	258,449,000
	<b>39,729,771,091</b>	<b>37,330,911,584</b>

## 18. GAINS

	2020	2019
Gain on Sale/Redemption/Transfer of Investments	627,536,658	0
Gain on Sale of Investment Property	6,730,503	15,076,642
Other Gains	1,144,083,634	13,123,608
	<b>1,778,350,795</b>	<b>28,200,250</b>

## 19. OTHER NON-OPERATING INCOME

	2020	2019
Reversal of Impairment Loss	223,941,698	551,794,144
Miscellaneous Income	1,687,857	1,649,320
	<b>225,629,555</b>	<b>553,443,464</b>

## 20. PERSONNEL SERVICES

	2020	2019
Salaries and Wages	442,377,454	439,360,805
Personnel Benefit Contributions	257,376,782	255,352,080
Other Compensation	222,269,167	222,075,303
Other Personnel Benefits	73,180,732	52,278,211
	<b>995,204,135</b>	<b>969,066,399</b>

### 20.1 Personnel Benefit Contributions

	2020	2019
Provident/Welfare Fund Contributions	198,169,708	197,713,035
Retirement and Life Insurance Premiums	53,152,425	52,894,827
PhilHealth Contributions	4,802,777	3,421,118
Employees Compensation Insurance Premiums	646,500	661,300
Pag-IBIG Contributions	605,372	661,800
	<b>257,376,782</b>	<b>255,352,080</b>

### 20.2 Other Compensation

	2020	2019
Year-end Bonus	90,187,839	81,871,877
Productivity Incentive Allowances	25,160,177	23,428,651
Representation Allowance	15,201,188	15,365,250
Transportation Allowance	14,893,725	15,024,665
Clothing/Uniform Allowance	3,222,000	3,046,382
Personnel Economic Relief Allowance	3,205,968	3,282,345
Longevity Pay	2,244,030	2,198,140
Overtime and Night Differential	2,008,140	5,752,477
Hazard Pay	177,632	0
Other Bonuses and Allowances	65,968,468	72,105,516
	<b>222,269,167</b>	<b>222,075,303</b>

### 20.3 Other Personnel Benefits

	2020	2019
Terminal Leave Benefits	47,976,564	26,979,402
Other Personnel Benefits	25,204,168	25,298,809
	<b>73,180,732</b>	<b>52,278,211</b>

## 21. MAINTENANCE AND OTHER OPERATING EXPENSES

	2020	2019
Utility Expenses	53,141,306	53,475,390
Professional Services	42,420,719	52,653,794
General Services	31,497,175	35,223,143
Repairs and Maintenance	11,397,360	10,283,308

	<b>2020</b>	<b>2019</b>
Supplies and Materials Expenses	7,710,325	13,205,486
Communication Expenses	7,290,931	5,195,579
Confidential, Intelligence and Extraordinary	5,282,883	8,266,813
Taxes, Insurance Premiums and Other Fees	3,669,396	8,222,043
Travel Expenses	2,173,850	23,878,995
Training Expenses	1,981,527	5,646,724
Other Maintenance and Operating Expenses	215,239,704	171,799,452
	<b>381,805,176</b>	<b>387,850,727</b>

### **21.1 Utility Expenses**

	<b>2020</b>	<b>2019</b>
Electricity Expenses	46,915,247	48,068,061
Water Expenses	6,226,059	5,407,329
	<b>53,141,306</b>	<b>53,475,390</b>

### **21.2 Professional Services**

	<b>2020</b>	<b>2019</b>
Auditing Services	12,722,170	16,582,155
Consultancy Services	3,907,877	6,272,699
Other Professional Services	25,790,672	29,798,940
	<b>42,420,719</b>	<b>52,653,794</b>

### **21.3 General Services**

	<b>2020</b>	<b>2019</b>
Security Services	20,415,461	22,976,302
Janitorial Services	10,242,702	11,180,325
Other General Services	839,012	1,066,516
	<b>31,497,175</b>	<b>35,223,143</b>

### **21.4 Repairs and Maintenance**

	<b>2020</b>	<b>2019</b>
Machinery and Equipment	8,774,888	9,112,830
Buildings and Other Structures	1,861,053	385,066
Transportation Equipment	435,526	417,809
Furniture and Fixtures	325,893	8,170
Leased Assets Improvements-Buildings	0	359,433
	<b>11,397,360</b>	<b>10,283,308</b>

### **21.5 Supplies and Materials Expenses**

	<b>2020</b>	<b>2019</b>
Office Supplies Expenses	4,426,189	8,921,561
Fuel, Oil and Lubricants Expenses	893,917	1,279,645

	<b>2020</b>	<b>2019</b>
Semi-Expendable Machinery and Equipment	664,534	1,810,225
Semi-Expendable Furniture, Fixtures and Books	619,165	123,183
Medical, Dental and Laboratory Supplies	423,679	36,241
Drugs and Medicines Expenses	361,450	267,252
Other Supplies and Materials	321,391	689,379
Accountable Forms Expenses	0	78,000
	<b>7,710,325</b>	<b>13,205,486</b>

## **21.6 Communication Expenses**

	<b>2020</b>	<b>2019</b>
Telephone Expenses	3,367,286	2,567,202
Internet Subscription Expenses	1,967,790	778,409
Postage and Courier Services	1,955,855	1,849,968
	<b>7,290,931</b>	<b>5,195,579</b>

## **21.7 Taxes, Insurance Premiums and Other Fees**

	<b>2020</b>	<b>2019</b>
Fidelity Bond Premiums	2,076,289	2,482,767
Insurance Expenses	1,550,575	1,281,440
Taxes, Duties and Licenses	42,532	4,457,836
	<b>3,669,396</b>	<b>8,222,043</b>

## **21.8 Travel Expenses**

	<b>2020</b>	<b>2019</b>
Travel Expenses – Local	1,696,230	18,558,330
Travel Expenses – Foreign	477,620	5,320,665
	<b>2,173,850</b>	<b>23,878,995</b>

## **21.9 Other Maintenance and Operating Expenses**

	<b>2020</b>	<b>2019</b>
Rent/Lease Expenses	143,451,709	115,801,068
Documentary Stamps Expenses	18,483,351	0
Litigation/Acquired Assets Expenses	10,885,394	9,614,032
Directors and Committee Members' Fees	8,606,000	11,311,825
Subscription Expenses	5,994,823	4,697,928
Membership Dues and Contributions to Organization	1,343,165	1,155,174
Advertising, Promotional and Marketing	303,323	1,548,337
Printing and Publication Expenses	40,749	5,028,605
Donations	0	39,072
Other Maintenance and Operating Expenses	26,131,190	22,603,411
	<b>215,239,704</b>	<b>171,799,452</b>

## 22. FINANCIAL EXPENSES

	2020	2019
Interest Expenses	2,983,071,715	3,465,702,191
Management Supervision/Trusteeship Fees	333,069	306,679
Bank Charges	34,383	174,837
Other Financial Charges	782,678	5,348,357
	<b>2,984,221,845</b>	<b>3,471,532,064</b>

## 23. NON-CASH EXPENSES

	2020	2019
Provision for Insurance Losses	26,984,637,378	22,679,038,704
Depreciation	20,267,192	20,524,353
Amortization – Intangible Assets	5,409,011	7,320,782
Impairment Loss – Other Receivables	50,994	11,138
Losses on Foreign Exchange & Notes Payable	77,531,505	217,470,200
	<b>27,087,896,080</b>	<b>22,924,365,177</b>

### 23.1 Losses on Foreign Exchange and Notes Payable

	2020	2019
Loss on Foreign Exchange	193,045	132,281
Other Losses – Notes Payable (Early Extinguishment)	77,338,460	217,337,919
	<b>77,531,505</b>	<b>217,470,200</b>

## 24. TAXES

The Corporation is exempt from income tax, final withholding tax, value added tax (VAT) on assessments and local taxes 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 Tax Expenditure Fund 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 2020 and 2019:

	2020	2019
Withholding Taxes:		
On Compensation and Benefits	104,953,683	114,864,657
Creditable Withholding Taxes	21,077,910	49,846,416
Final Withholding Taxes	108,081	368,180
Value Added Tax	3,279,880,456	3,029,469,128
Documentary Stamp	18,483,351	0
BIR Annual Registration Fee	500	500
	<b>3,424,503,981</b>	<b>3,194,548,881</b>

## **25. DIVIDENDS TO THE NG**

Dividends to the National Government (NG) amounted to ₱4.907 billion and ₱4.325 billion, in 2020 and 2019, respectively, representing 50 per cent of net income from other sources in 2020 and 2019, respectively.

A Memorandum of Agreement (MOA) dated December 21, 2017 was executed between PDIC and Department of Finance (DOF) where the settlement amount was agreed at ₱23.8 billion pending Department of Justice (DOJ) 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. Remittances under this MOA totaling ₱10.8 billion were made on December 22, 2017 and December 14, 2018; and ₱6 billion on December 13, 2019. On March 31, 2020, the Corporation remitted the amount of ₱7.0 billion ahead of installment due dates under the said MOA in response to the unexpected expenditures of the government in view of the COVID-19 pandemic.

On November 20, 2020, the DOJ issued its Opinion No. 47 S. 2020 to the Secretary of Finance in response to its request for a confirmatory opinion on whether PDIC is allowed by law to deduct any reserve from its net earnings for the purpose of calculating the dividends due to the NG for the period 2004 to 2015. The PDIC Board noted that the DOJ opined that the dividends remitted by PDIC to the NG for the period 2004 to 2015 were deficient due to the deduction of the reserves by the PDIC from its assessment collections and income from operations, contrary to the express provision of the Dividends Law. The DOJ opinion also highlighted that Republic Act (R.A.) No. 10846 has a prospective application.

Moreover, a MOA dated March 14, 2019 (settlement amount of ₱4.066 billion for dividends years 2016-2017), Supplemental MOA dated March 9, 2020 (settlement amount of ₱2.006 billion for dividend year 2018) and 2nd Supplemental MOA dated October 21, 2020 (settlement amount of ₱1.942 billion for dividend year 2019) had been executed between DOF and PDIC on other dividend issues with the regard to deductibility from the dividend base the interest on borrowings for financial assistance and insurance purposes, and propriety of the exclusion of unrealized income, booked to comply with International Financial Reporting Standards, from the dividend base. Remittances under these MOAs in the amount of ₱1.355 billion and ₱6.659 billion were made in 2019 and 2020, respectively.

In a letter dated December 17, 2020, the DOF and PDIC have jointly replied to the DOJ letter dated 5 June 2020 which recommended the commencement of administrative adjudication on the proper interpretation and application of Section 18 of R.A. No. 3591, as amended (PDIC Charter) on the abovementioned dividend issues. The DOF and PDIC, as approved by its Board, informed DOJ that they have agreed that there is no need to arbitrate. Instead, both DOF and PDIC shall request for an opinion of DOJ and shall be bound therewith.

On March 4, 2021, DOF requested the remittance of ₱2.192 billion as additional dividends for CY 2020 based on the abovementioned dividend issues, citing the immediate need for NG resources to fund the health and economic recovery measures. The Board declared ₱2.192 billion additional dividends on March 24, 2021 and PDIC

remitted to the NG on March 25, 2021. The same shall be covered by a 3rd Supplemental MOA pending the DOJ opinion.

## **26. LEASES**

The Corporation leased the premises of the Social Security System at Ayala Avenue, Makati City which serves as PDIC's principal office for ₱126.30 million and ₱ 111.61 million as at December 31, 2020 and 2019, respectively. The lease is of short-term duration and renewable under certain terms and conditions. Payments made under such lease are expensed as incurred.

## **27. CONTINGENT LIABILITIES AND OTHER MATTERS**

**27.1** 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

There were 16 cases filed against the Corporation for payment of deposit insurance in the estimated amount of ₱27.393 million.

### Cases subject matter of which are incapable of pecuniary estimation

There are 11 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.

### **27.2** Estimated insured deposits

As at December 31, 2020, estimated insured deposits up to the ₱500,000 maximum deposit insurance coverage amounted to ₱3.07 trillion<sup>2</sup>, representing 78.74 million accounts. This is equivalent to 21.39 per cent of the total deposits of ₱14.35 trillion in the banking industry.

### **27.3** Banks under receivership and liquidation

After the PDIC Board approved the Reports of Termination of Liquidation of the Assets and Winding-up Operation of the Affairs of 337 closed banks, remaining banks under liquidation by PDIC as of December 31, 2020 stood at 367 closed banks. Based on available financial statements, the total estimated realizable value of assets (ERVA) and liabilities of 361 closed banks, excluding the five banks closed in 2020 and a bank whose liquidation was nullified by the Court of Appeals in 2020 although the decision nullifying the liquidation has not yet attained finality, amounted to ₱43.30 billion and ₱141.31 billion, respectively. From the total ₱ 43.30 billion ERVA, PDIC has an estimated recovery of ₱17.97 billion for subrogated claims and ₱2.75 billion for

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<sup>2</sup> Based on EID as of December 31, 2020

receivership and liquidation expenses. This is subject to the approval of the Asset Distribution Plan of closed banks by their respective Liquidation Courts.

As of December 31, 2019, there were 375 closed banks under PDIC liquidation of which, 374 (excludes one bank closed in later part of 2019) have ERVA of ₱42.53 billion and liabilities of ₱142.58 billion based on their latest available financial statements.

## **28. RELATED PARTY TRANSACTION**

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

## **29. 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 or assigned to PDIC 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
<b>2020</b>			
Notes Receivable	1,633,086,553	1,633,086,553	0
<b>2019</b>			
Notes Receivable	1,954,651,759	1,954,651,759	0

### *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 and 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, 2020 and 2019.

	On Demand	Up to 3 months	> 3 up to 12 months	> 1 up to 5 years
<b>As at December 31, 2020</b>				
Accounts Payable and Due to Officers and Employees	143,206,487	0	0	0
Insured Deposit Claims Payable	224,532,648	0	0	0
Notes Payable	1,532,395,917	0	36,970,354,777	12,728,920,854
	<b>1,900,135,052</b>	<b>0</b>	<b>36,970,354,777</b>	<b>12,728,920,854</b>
<b>As at December 31, 2019</b>				
Accounts Payable and Due to Officers and Employees	119,604,010	0	0	0
Insured Deposit Claims Payable	183,118,541	0	0	0
Notes Payable	5,921,991	0	20,942,250,894	50,040,100,680
	<b>308,644,542</b>	<b>0</b>	<b>20,942,250,894</b>	<b>50,040,100,680</b>
	> 5 up to 10 years	> 10 up to 20 years	Over 20 years	Total
<b>As at December 31, 2020</b>				
Accounts Payable and Due to Officers and Employees		0	0	143,206,487
Insured Deposit Claims Payable		0	0	224,532,648
Notes Payable	306,230,998	0	127,120,061	51,665,022,607
	<b>306,230,998</b>	<b>0</b>	<b>127,120,061</b>	<b>52,032,761,742</b>
<b>As at December 31, 2019</b>				
Accounts Payable and Due to Officers and Employees		0	0	119,604,010

Insured Deposit Claims Payable		0		183,118,541
Notes Payable	292,158,840	285,003,230	119,579,938	71,685,015,573
	<b>308,644,542</b>	<b>0</b>	<b>119,579,938</b>	<b>71,987,738,124</b>

## 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, 2020, DIF/EID ratio stood at 6.99 per cent with DIF at ₱214.75 billion over estimated EID at ₱3.07 trillion<sup>2</sup>.

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<sup>2</sup> Based on EID as of December 31, 2020