



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, 2017 and 2016, 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, 2017 and 2016, 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 audit 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 P1.44 billion and interest of P1.04 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, 2017, 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 audit was 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

June 8, 2018



## PHILIPPINE DEPOSIT INSURANCE CORPORATION

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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, 2017, 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

  
**CYRUS T. GALANG**  
Vice President  
Comptrollership Group

  
**ROBERTO B. TAN**  
President & CEO  
18061511

June 8, 2018

**PHILIPPINE DEPOSIT INSURANCE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**As at December 31, 2017 and 2016**  
(In Philippine Peso)

	Note	2017	2016 (as restated)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	1,335,140,091	960,521,762
Financial Assets, net	4	12,254,884,122	13,083,191,517
Other Investments	5	5,347,789,230	4,707,381,967
Receivables	6	15,628,084	2,396,836
Inventories	7	594,411	1,333,960
Assets Held for Sale, net	8	53,510,751	136,872,810
Other Current Assets	12	294,090,091	289,596,103
		<b>19,301,636,780</b>	<b>19,181,294,955</b>
<b>Non-Current Assets</b>			
Financial Assets	4	151,826,004,171	133,378,031,394
Other Investments	5	39,879,422,927	38,881,408,030
Receivables, net	6	2,124,623,020	2,116,630,548
Investment Property, net	9	1,297,877,509	1,018,986,473
Property, Plant and Equipment, net	10	128,696,343	116,083,642
Intangible Assets, net	11	21,697,856	41,707,016
Other Non-Current Assets	12	277,132,483	248,962,405
		<b>195,555,454,309</b>	<b>175,801,809,508</b>
<b>Total Assets</b>		<b>214,857,091,089</b>	<b>194,983,104,463</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Financial Liabilities	13	315,522,109	13,224,284,979
Inter-agency Payables	14	42,809,767	233,665,197
Trust Liabilities	15	498,058	2,578,072
Unearned Income	16	2,448,944	519,052
Other Payables	19	2,866,069,098	2,661,674,533
		<b>3,227,347,976</b>	<b>16,122,721,833</b>
<b>Non-Current Liabilities</b>			
Financial Liabilities	13	64,201,722,322	48,847,461,565
Trust Liabilities	15	4,253,780	4,746,437
Unearned Income	16	6,314,414	171,694
Provisions	17	236,719,304	221,367,602
Deferred Tax Liabilities	18	323,196	375,778
Other Payables	19	30,223,598	31,162,693
		<b>64,479,556,614</b>	<b>49,105,285,769</b>
<b>Total Liabilities</b>		<b>67,706,904,590</b>	<b>65,228,007,602</b>
<b>EQUITY</b>			
Government Equity (Permanent Insurance Fund)		3,000,000,000	3,000,000,000
Reserves for Insurance Losses		114,004,494,372	94,653,703,502
Retained Earnings		30,145,692,127	32,101,393,359
<b>Total Equity</b>		<b>147,150,186,499</b>	<b>129,755,096,861</b>
<b>Total Liabilities and Equity</b>		<b>214,857,091,089</b>	<b>194,983,104,463</b>

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, 2017 and 2016**  
(In Philippine Peso)

	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Income</b>			
Business Income	20	30,014,332,982	27,172,281,245
Gains	21	751,088,358	44,888,183
Other Non-operating Income	22	616,356,608	77,188,370
<b>Total Income</b>		<b>31,381,777,948</b>	<b>27,294,357,798</b>
<b>Expenses</b>			
Personnel Services	23	1,039,513,596	1,014,422,312
Maintenance and Other Operating Expenses	24	306,661,378	317,514,576
Deposit Claims Pay-out Expenses		1,157,016,828	1,906,445,293
Receivership and Liquidation Expenses		253,763,407	258,136,998
Financial Expenses	25	3,559,896,787	3,438,650,740
Non-Cash Expenses	26	19,376,328,417	15,036,738,017
<b>Total Expenses</b>		<b>25,693,180,413</b>	<b>21,971,907,936</b>
<b>Net Income for the Period</b>		<b>5,688,597,535</b>	<b>5,322,449,862</b>
Other Comprehensive Income for the Period		-	-
<b>Total Comprehensive Income</b>		<b>5,688,597,535</b>	<b>5,322,449,862</b>

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, 2017 and 2016**  
(In Philippine Peso)

	Note	Permanent Insurance Fund	Reserves for Insurance Losses	Retained Earnings	Total
<b>BALANCE AT JANUARY 1, 2016</b>		<b>3,000,000,000</b>	<b>80,064,284,612</b>	<b>29,640,168,428</b>	<b>112,704,453,040</b>
<b>ADJUSTMENT:</b>					
Add/(Deduct):					
Prior period adjustment	33			(200,000,000)	(200,000,000)
<b>RESTATED BALANCE AT JANUARY 1, 2016</b>		<b>3,000,000,000</b>	<b>80,064,284,612</b>	<b>29,440,168,428</b>	<b>112,504,453,040</b>
<b>CHANGES IN EQUITY FOR 2016</b>					
Add/(Deduct):					
Additional reserves for insurance losses			14,589,418,890		14,589,418,890
Net income for the year				5,322,449,862	5,322,449,862
Declaration of cash dividends	28			(2,661,224,931)	(2,661,224,931)
<b>BALANCE AT DECEMBER 31, 2016</b>		<b>3,000,000,000</b>	<b>94,653,703,502</b>	<b>32,101,393,359</b>	<b>129,755,096,861</b>
<b>CHANGES IN EQUITY FOR 2017</b>					
Add/(Deduct):					
Additional reserves for insurance losses	26		19,350,790,870		19,350,790,870
Net income for the year				5,688,597,535	5,688,597,535
Declaration of cash dividends	28			(7,644,298,767)	(7,644,298,767)
<b>BALANCE AT DECEMBER 31, 2017</b>		<b>3,000,000,000</b>	<b>114,004,494,372</b>	<b>30,145,692,127</b>	<b>147,150,186,499</b>

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, 2017 and 2016**  
(In Philippine Peso)

	Note	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Collections of Income/Revenue		31,130,015,770	28,127,241,275
Collections of Receivables		494,225,706	7,134,117,738
		<b>31,624,241,476</b>	<b>35,261,359,013</b>
<b>Cash Outflows</b>			
Payment of Expenses		(1,593,875,284)	(1,489,558,257)
Payment of Insured Deposits		(1,274,094,070)	(1,967,292,152)
Grant of Cash Advances and Various Receivables		(105,144,830)	(107,051,560)
Payment of Accounts Payable		(69,053,024)	(162,617,217)
Grant of Financial Assistance		(56,100,000)	-
Payments of Receivership and Liquidation Expenses		(9,092,480)	(13,348,849)
Remittance of Taxes Withheld		(66,537)	(63,314)
		<b>(3,107,426,225)</b>	<b>(3,739,931,349)</b>
<b>Net Cash Provided by Operating Activities</b>		<b>28,516,815,251</b>	<b>31,521,427,664</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Proceeds from Matured Investments		88,156,979,710	67,352,257,623
		<b>88,156,979,710</b>	<b>67,352,257,623</b>
<b>Cash Outflows</b>			
Purchase of Investment		(108,728,473,330)	(93,231,402,397)
Purchase/Construction of Property and Equipment		(19,339,171)	(18,671,925)
		<b>(108,747,812,501)</b>	<b>(93,250,074,322)</b>
<b>Net Cash Used In Investing Activities</b>		<b>(20,590,832,791)</b>	<b>(25,897,816,699)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash Outflows</b>			
Payment of Cash Dividends		(7,461,224,931)	(2,278,561,051)
Payment of Long-term Liabilities to BSP		(90,036,438)	(2,885,951,218)
		<b>(7,551,261,369)</b>	<b>(5,164,512,269)</b>
<b>Net Cash Used In Financing Activities</b>		<b>(7,551,261,369)</b>	<b>(5,164,512,269)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>374,721,091</b>	<b>459,098,696</b>
Effects of Exchange Rates Changes on Cash and Cash Equivalents		(102,762)	(63,514)
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>		<b>960,521,762</b>	<b>501,486,580</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>		<b>1,335,140,091</b>	<b>960,521,762</b>

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, 2017 and 2016

**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 Bldg., 6782 Ayala Ave. corner V.A. Rufino St., Makati City.

As at December 31, 2017, PDIC's total manpower<sup>1</sup> complement stood at 598 (210 officers and 388 rank and file employees), 588 of whom are of permanent status and ten 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 7, 2018.

**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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<sup>1</sup> Excluding externally provided services by 331 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, except for the financial assets at fair value through other comprehensive income which are measured at fair value.

The financial statements are presented in Philippine Peso, and 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, fund, 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.

### **a. Impairment of investments**

The Corporation determines that investments are impaired when there has been a significant or prolonged decline in their fair value below its cost, considering the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Corporation classifies non-derivative financial assets with fixed or determinable payments and fixed maturity such 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, 2017 and 2016 are disclosed in Note 4. There was no impairment loss recognized on investments in 2017 and 2016.

#### **b. Impairment of other financial assets**

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- The probability that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

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, 2017 and 2016 are disclosed in Note 6.

### **c. 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 assets held for sale, investment property and property, plant and equipment as at December 31, 2017 and 2016 are disclosed in Notes 8, 9 and 10, respectively.

### **d. Estimated useful lives of property and equipment**

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

### **e. 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*

For accounting period beginning on or after January 1, 2017, there are no new amendments and interpretations to the accounting standards which will have a significant impact on the accounting policies, financial condition or performance of 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 are listed herein. The listing consists of accounting standards and interpretations issued, which the Corporation reasonably expects to be applicable at a future date.

- 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: Phase 1 - Classification and measurement for financial assets and financial liabilities, Phase 2 - Impairment, and Phase 3 - Hedge Accounting. The Standard carries forward the scope of PAS 39, and adds: a) an option to include certain contracts that would otherwise be subject to the 'own use exemption'; and b) certain loan commitments and contract assets in respect of the impairment requirements. PFRS 9 carries forward from PAS 39 the requirements for recognition and derecognition of financial instruments, with only minor amendments.

The Corporation has adopted Phase 1 of PFRS 9 since its 2013 financial reporting. This affected the classification and measurement of accounts in the Corporation's financial position and performance. The Corporation intends to adopt Phase 2 when it becomes effective in 2018. The impact of the new expected credit loss impairment model in Phase 2 over the existing incurred loss model prescribed by PAS 39 has not been assessed. Phase 3 on Hedge Accounting will not be adopted as it is not applicable to the Corporation.

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

PFRS 16 is effective for accounting periods beginning on or after January 1, 2019. Early adoption is permitted provided PFRS 15 is also applied.

This Standard requires lessees to account for leases 'on-balance sheet' by recognizing a 'right of use' asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods in which extension is 'reasonably certain'. In subsequent periods, the right-of-use asset is accounted for similarly to a purchased asset and depreciated and reviewed for impairment. The lease liability is accounted for similarly to a financial liability using the effective interest method.

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.

- 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

##### 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 (FVOCI)

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

Investments in equity instruments at FVOCI 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.

##### 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 FVOCI, 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 P15,000 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
Leased Assets Improvements	3 years

Leased assets 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 of 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.

##### **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 the end of 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 consist 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 by virtue of Republic Act No. 3591, as amended. The full capitalization 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 records 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.

## **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.

The Board of Directors may establish a risk-based assessment system and impose a risk-based assessment rate which shall not exceed two-fifth of one per cent centum per annum multiplied by the assessment base (Section 7(a), R.A. 3591, as amended).

#### 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:

<b>Years of Service</b>	<b>Percentage</b>
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 another party, 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. This 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. Fair value measurement**

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. For all other financial instruments not listed in an active market, the fair value is determined by using the present value technique.

#### **n. 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 on assessments collected from member banks, and local taxes starting June 1, 2014. Income from other sources is still subject to value-added tax.

#### **o. 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>2017</b>	<b>2016</b>
Cash on Hand	1,641,867	1,444,702
Cash in Bank – Local Currency	119,336,005	77,997,991
Cash in Bank – Foreign Currency	372,940	273,462
Cash Equivalents	1,213,789,279	880,805,607
	<b>1,335,140,091</b>	<b>960,521,762</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. FINANCIAL ASSETS**

This account includes the following:

	<b>2017</b>			<b>2016</b>		
	<b>Current</b>	<b>Non-current</b>	<b>Total</b>	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
Investment Securities at Amortized Cost	12,254,884,122	151,814,599,171	164,069,483,293	13,083,191,517	133,340,226,794	146,423,418,311
Financial Assets at Fair Value Through Other Comprehensive Income	0	11,405,000	11,405,000	0	37,804,600	37,804,600
	<b>12,254,884,122</b>	<b>151,826,004,171</b>	<b>164,080,888,293</b>	<b>13,083,191,517</b>	<b>133,378,031,394</b>	<b>146,461,222,911</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 ₱8.603 billion and ₱7.928 billion in 2017 and 2016.



*Financial assets at fair value through other comprehensive income (FAFVOCI) consist of the following:*

	<b>2017</b>	<b>2016</b>
Preferred shares	11,405,000	37,804,600
Capital notes	12,000,000,000	12,000,000,000
Allowance for impairment	(12,000,000,000)	(12,000,000,000)
	0	0
	<b>11,405,000</b>	<b>37,804,600</b>

*Preferred shares* represent PDIC's subscription on December 28, 2017 to the preferred shares of stock with par value of P100 per share issued by a rural bank. 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 P12 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:

	<b>2017</b>			<b>2016</b>		
	<b>Current</b>	<b>Non-current</b>	<b>Total</b>	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
<b>Sinking Fund</b>	<b>5,347,789,230</b>	<b>39,879,422,927</b>	<b>45,227,212,157</b>	<b>4,707,381,967</b>	<b>38,881,408,030</b>	<b>43,588,789,997</b>

*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:

	<b>2017</b>			<b>2016</b>		
	<b>Current</b>	<b>Non-current</b>	<b>Total</b>	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
Loans and Receivable	13,685,101	1,177,720,805	1,191,405,906	2,267,234	1,166,765,678	1,169,032,912
Inter-Agency Receivables	1,500,000	943,568,438	945,068,438	0	937,567,400	937,567,400
Other Receivables	442,983	3,333,777	3,776,760	129,602	12,297,470	12,427,072
	<b>15,628,084</b>	<b>2,124,623,020</b>	<b>2,140,251,104</b>	<b>2,396,836</b>	<b>2,116,630,548</b>	<b>2,119,027,384</b>

## Loans and Receivable

This account includes the following:

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Notes Receivable	5,180,791	1,057,478,200	1,062,658,991	397,205	1,075,310,444	1,075,707,649
Subrogated Claims Receivable	0	62,410,820,399	62,410,820,399	0	63,075,380,457	63,075,380,457
SCR – NG Share	0	(4,871,440,120)	(4,871,440,120)	0	(4,868,106,187)	(4,868,106,187)
Allowance for Impairment	0	(57,539,380,279)	(57,539,380,279)	0	(58,207,274,270)	(58,207,274,270)
Net Value	0	0	0	0	0	0
Assigned Receivables	0	12,300,235,987	12,300,235,987	0	12,679,926,990	12,679,926,990
Allowance for Impairment	0	(12,202,836,199)	(12,202,836,199)	0	(12,597,003,312)	(12,597,003,312)
Net Value	0	97,399,788	97,399,788	0	82,923,678	82,923,678
Loans Receivable – Others	0	2,828,934,408	2,828,934,408	0	2,436,379,761	2,436,379,761
Allowance for Impairment	0	(2,824,340,527)	(2,824,340,527)	0	(2,431,785,880)	(2,431,785,880)
Net Value	0	4,593,881	4,593,881	0	4,593,881	4,593,881
Receivership & Liquidation Receivable	0	2,505,547,139	2,505,547,139	0	2,384,904,552	2,384,904,552
Allowance for Impairment	0	(2,505,547,139)	(2,505,547,139)	0	(2,384,904,552)	(2,384,904,552)
Net Value	0	0	0	0	0	0
Sales Contract Receivable	6,662,468	23,862,784	30,525,252	1,591,978	37,220,491	38,812,469
Allowance for Impairment	0	(5,613,848)	(5,613,848)	0	(33,282,816)	(33,282,816)
Net Value	6,662,468	18,248,936	24,911,404	1,591,978	3,937,675	5,529,653
Interest Receivable	1,841,842	0	1,841,842	278,051	0	278,051
Allowance for Impairment	0	0	0	0	0	0
Net Value	1,841,842	0	1,841,842	278,051	0	278,051
Total	13,685,101	1,177,720,805	1,191,405,906	2,267,234	1,166,765,678	1,169,032,912

*Notes receivable* represent loans granted to one commercial bank and two 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. In 2017, SCR amounting to ₱1.653 billion which were previously fully provided with allowance for impairment were approved for write-off.

*Subrogated claims receivable – National Government Share* account with an accumulated balance of ₱4.871 billion and ₱4.868 billion as at December 31, 2017 and 2016, respectively, represent insured deposits paid in excess of the first ₱250,000 up to ₱500,000 for each depositor in bank closures from June 1, 2009 to May 31, 2012.

*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, 2017, 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. Also, RLR amounting to ₱28.998 million which were previously provided with allowance for impairment were approved for write-off.

*Sales contract receivable* are receivables from installment sales of assets acquired from banks as a mode of financial assistance and from closed banks in payment of receivables.

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

### Inter-Agency Receivables

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Bureau of Internal Revenue	0	885,730,142	885,730,142	0	884,034,710	884,034,710
National Government	0	57,838,296	57,838,296	0	53,532,690	53,532,690
DBM-Procurement Service	1,500,000	0	1,500,000	0	0	0
	<b>1,500,000</b>	<b>943,568,438</b>	<b>945,068,438</b>	<b>0</b>	<b>937,567,400</b>	<b>937,567,400</b>

Inter-Agency Receivables are receivables from the following agencies:

*Bureau of Internal Revenue* pertains to 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)* pertains to 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.

*DBM Procurement Service (DBM-PS)* pertains to the revolving fund deposited with DBM-PS for the facility used in the purchase of plane tickets for local travel.

### Other Receivables

This includes the following:

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Due from Officers and Employees	280,467	9,354,735	9,635,202	115,604	7,959,368	8,074,972
Allowance for Impairment	0	(9,354,735)	(9,354,735)	0	(7,882,185)	(7,882,185)
Net Value	<b>280,467</b>	<b>0</b>	<b>280,467</b>	<b>115,604</b>	<b>77,183</b>	<b>192,787</b>
Receivables-Disallowance and Charges	<b>146,700</b>	<b>0</b>	<b>146,700</b>	<b>0</b>	<b>0</b>	<b>0</b>

Other Receivables	15,816	65,718,989	65,734,805	13,998	74,616,957	74,630,955
Allowance for Impairment	0	(62,385,212)	(62,385,212)	0	(62,396,670)	(62,396,670)
Net Value	<b>15,816</b>	<b>3,333,777</b>	<b>3,349,593</b>	<b>13,998</b>	<b>12,220,287</b>	<b>12,234,285</b>
<b>Total</b>	<b>442,983</b>	<b>3,333,777</b>	<b>3,776,760</b>	<b>129,602</b>	<b>12,297,470</b>	<b>12,427,072</b>

### Aging/Analysis of Receivables

As at December 31, 2017

Accounts	Gross Amount	Not Past Due	Past Due		
			< 30 days	30-60 days	>60 days
Subrogated Claims Receivables	62,410,820,399	0	0	0	62,410,820,399
Assigned Receivables	12,300,235,987	0	0	0	12,300,235,987
Loans Receivable - Others	2,828,934,408	0	0	0	2,828,934,408
Receivership and Liquidation Receivable	2,505,547,139	0	0	0	2,505,547,139
Notes Receivable	1,062,658,991	1,062,658,991	0	0	0
Inter-Agency Receivables	945,068,438	1,500,000	0	0	943,568,438
Sales Contract Receivables	30,525,252	24,612,947	0	0	5,912,305
Interests Receivable	1,841,842	1,841,842	0	0	0
Other Receivables	75,516,707	2,279,809	254,362	0	72,982,536
	<b>82,161,149,163</b>	<b>1,092,893,589</b>	<b>254,362</b>	<b>0</b>	<b>81,068,001,212</b>

## 7. INVENTORIES

	2017	2016
Inventories Carried at Cost and Net Realizable Value		
<b>Inventory Held for Sale</b>		
Carrying Amount, January 1	146,592	151,658
Additions/Acquisitions during the year	166,386	165,050
Sold during the year except write-down	(258,034)	(170,116)
<b>Carrying Amount, December 31</b>	<b>54,944</b>	<b>146,592</b>
<b>Inventory Held for Consumption</b>		
Carrying Amount, January 1	1,187,368	1,405,929
Additions/Acquisitions during the year	8,326,406	9,029,046
Expenses during the year except write-down	(8,974,307)	(9,247,607)
Carrying Amount, December 31	539,467	1,187,368
<b>Total Inventories</b>	<b>594,411</b>	<b>1,333,960</b>



*Inventory held for sale* refers to decals and standees while *Inventory held for consumption* refers to office supplies and materials of the Corporation.

## 8. ASSETS HELD FOR SALE

This account includes the following:

	2017	2016
Carrying Amount, January 1	136,872,810	220,080,577
Additions/Acquisitions	0	0
Other Changes	(108,649,933)	0
<b>Total</b>	<b>28,222,877</b>	<b>220,080,577</b>
Disposals	(12,007,487)	(17,983,374)
Impairment Loss	0	(65,224,393)
Other Changes	37,295,361	0
<b>Carrying Amount, December 31</b>	<b>53,510,751</b>	<b>136,872,810</b>
Gross Cost	55,616,537	247,524,496
Accumulated Impairment Loss	(2,105,786)	(110,651,686)
<b>Carrying Amount, December 31</b>	<b>53,510,751</b>	<b>136,872,810</b>

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:

	2017	2016
Carrying Amount, January 1	1,018,986,473	1,375,624,310
Additions/Acquisitions	67,469,685	138,210,441
Other Changes	108,649,933	0
<b>Total</b>	<b>1,195,106,091</b>	<b>1,513,834,751</b>
Disposals	(53,967,880)	(32,750,563)
Impairment Loss	0	(381,902,496)
Other Changes	156,739,298	(80,195,219)
<b>Carrying Amount, December 31</b>	<b>1,297,877,509</b>	<b>1,018,986,473</b>
Gross Cost	2,546,655,564	2,371,855,508
Accumulated Impairment Loss	(1,248,778,055)	(1,352,869,035)
<b>Carrying Amount, December 31</b>	<b>1,297,877,509</b>	<b>1,018,986,473</b>

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, for continuing sale/disposal.

## 10. PROPERTY, PLANT AND EQUIPMENT

This account includes the following:

2017						
Particulars	Land	Buildings, Construction in Progress	Furniture, Fixtures, Equipment	Transportation Equipment	Leased Assets Improvements	Total
<b>Cost</b>						
At January 1, 2017	26,206,018	145,317,082	126,926,215	30,155,559	1,532,985	330,137,859
Additions	0	9,316,398	8,886,361	10,436,000	(725,292)	27,913,467
Disposals/adj./amortizations	0	0	(4,950,789)	0	0	(4,950,789)
<b>At December 31, 2017</b>	<b>26,206,018</b>	<b>154,633,480</b>	<b>130,861,787</b>	<b>40,591,559</b>	<b>807,693</b>	<b>353,100,537</b>
<b>Accumulated Depreciation</b>						
At January 1, 2017	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	(4,268,865)	0	0	(4,268,865)
<b>At December 31, 2017</b>	<b>0</b>	<b>113,524,947</b>	<b>86,645,130</b>	<b>24,234,117</b>	<b>0</b>	<b>224,404,194</b>
<b>Net book value</b>						
<b>At December 31, 2017</b>	<b>26,206,018</b>	<b>41,108,533</b>	<b>44,216,657</b>	<b>16,357,442</b>	<b>807,693</b>	<b>128,696,343</b>
2016						
Particulars	Land	Buildings, Construction in Progress	Furniture, Fixtures, Equipment	Transportation Equipment	Leased Assets Improvements	Total
<b>Cost</b>						
At January 1, 2016	26,206,018	145,317,082	131,570,868	30,155,559	230,893	333,480,420
Additions	0	0	5,783,828	0	1,500,000	7,283,828
Disposals/adj./amortizations	0	0	(10,428,482)	0	(197,908)	(10,626,390)
<b>At December 31, 2016</b>	<b>26,206,018</b>	<b>145,317,082</b>	<b>126,926,214</b>	<b>30,155,559</b>	<b>1,532,985</b>	<b>330,137,858</b>
<b>Accumulated Depreciation</b>						
At January 1, 2016	0	106,580,143	77,291,244	21,245,001	0	205,116,388
Depreciation/Amortization	0	3,472,402	12,699,784	1,387,622	0	17,559,808
Disposals/adjustments	0	0	(8,621,980)	0	0	(8,621,980)
<b>At December 31, 2016</b>	<b>0</b>	<b>110,052,545</b>	<b>81,369,048</b>	<b>22,632,623</b>	<b>0</b>	<b>214,054,216</b>
<b>Net book value</b>						
<b>At December 31, 2016</b>	<b>26,206,018</b>	<b>35,264,537</b>	<b>45,557,166</b>	<b>7,522,936</b>	<b>1,532,985</b>	<b>116,083,642</b>

This account includes Corporate property located at Chino Roces Avenue, Makati City, with appraised value of ₱475 million for the land and ₱71.200 million for the building totaling ₱546.200 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.

	2017	2016
Carrying Amount, January 1	41,707,016	39,884,387
Additions – Internally Developed	0	15,349,545
Additions - Purchased	27,250	0
Total	41,734,266	55,233,932
Amortization recognition	(10,164,199)	(13,526,916)
Impairment Loss	0	
Other Changes		
Reclassification	(7,379,461)	0
Derecognition due to termination of contract	(2,492,750)	0
<b>Carrying Amount, December 31</b>	<b>21,697,856</b>	<b>41,707,016</b>
Gross Cost	127,398,948	136,232,717
Accumulated Amortization	(105,701,092)	(94,525,701)
<b>Carrying Amount, December 31</b>	<b>21,697,856</b>	<b>41,707,016</b>

## 12. OTHER ASSETS

This account includes the following:

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Restricted Fund	283,777,045	0	283,777,045	273,756,193	0	273,756,193
Prepayments	10,309,846	105,137,212	115,447,058	15,687,070	77,561,459	93,248,529
Deposits	0	22,758,494	22,758,494	0	22,258,494	22,258,494
Other Assets	3,200	1,555,299,973	1,555,303,173	152,840	1,557,549,106	1,557,701,946
Accumulated Impairment Loss	0	(1,406,063,196)	(1,406,063,196)	0	(1,408,406,654)	(1,408,406,654)
	0	149,236,777	149,239,977	152,840	149,142,452	149,295,292
	<b>294,090,091</b>	<b>277,132,483</b>	<b>571,222,574</b>	<b>289,596,103</b>	<b>248,962,405</b>	<b>538,558,508</b>

*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, MERALCO, PLDT, etc.).

*Other Assets* represent unserviceable assets for disposal, various assets acquired from 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:

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Notes Payable	35,617,802	64,201,722,322	64,237,340,124	12,846,375,848	48,847,461,565	61,693,837,413
Insured Deposit Claims Payable	180,954,190	0	180,954,190	293,725,825	0	293,725,825
Accounts Payable	54,821,185	0	54,821,185	62,450,117	0	62,450,117
Due to Officers and Employees	44,128,932	0	44,128,932	21,733,189	0	21,733,189
	<b>315,522,109</b>	<b>64,201,722,322</b>	<b>64,517,244,431</b>	<b>13,224,284,979</b>	<b>48,847,461,565</b>	<b>62,071,746,544</b>

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

The above balances do not include the amount of principal and interest of ₱1.44 billion and ₱1.04 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, 2017, the case is still pending with the DOJ.

*Insured Deposit Claims Payable* represents balance of unpaid but validated insured deposit claims.

*Accounts Payable* refers to the amount due to various suppliers/creditors and payable to the PDIC Provident Fund representing corporate and employees contributions and loan payments deducted from salaries of employees.

*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:

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Due to BIR	31,455,768	0	31,455,768	221,769,974	0	221,769,974
Due to GSIS	10,608,559	0	10,608,559	10,407,014	0	10,407,014
Due to Philhealth	491,250	0	491,250	1,145,261	0	1,145,261
Due to Pag-IBIG	254,190	0	254,190	342,948	0	342,948
	<b>42,809,767</b>	<b>0</b>	<b>42,809,767</b>	<b>233,665,197</b>	<b>0</b>	<b>233,665,197</b>

*Due to Bureau of Internal Revenue (BIR)* pertains to 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)* pertains to corporate and employees' contributions and loan payments deducted from salaries of employees for remittance to GSIS;

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

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

#### 15. TRUST LIABILITIES

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Guarantee/Security Deposits Payable	498,058	4,253,780	4,751,838	2,578,072	4,746,437	7,324,509

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

#### 16. UNEARNED INCOME

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Unearned Income	2,448,944	6,314,414	8,763,358	519,052	171,694	690,746

This account represents unearned interest 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:

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Dividends Payable	2,844,298,768	0	2,844,298,768	2,661,224,931	0	2,661,224,931
Other Payables	21,770,330	30,223,598	51,993,928	449,602	31,162,693	31,612,295
	<b>2,866,069,098</b>	<b>30,223,598</b>	<b>2,896,292,696</b>	<b>2,661,674,533</b>	<b>31,162,693</b>	<b>2,692,837,226</b>

*Dividends Payable* are cash dividends due to National Government for 2017 income.

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

## 20. BUSINESS INCOME

	2017	2016
Assessment Income	20,991,903,023	18,539,981,764
Interest Income	8,740,336,550	8,301,636,500
Dividend Income	26,415,531	73,791,334
Fines and Penalties-Business Income	3,469,367	1,942,462
Rent/Lease Income	2,343,433	5,577,644
Sales Revenue	98,578	80,541
Other Business Income	249,766,500	249,271,000
	<b>30,014,332,982</b>	<b>27,172,281,245</b>

## 21. GAINS

	2017	2016
Gain on Sale of Investment Property	68,499,233	18,674,706
Gain on Sale of Investments	10,112,875	26,213,477
Other Gains	672,476,250	0
	<b>751,088,358</b>	<b>44,888,183</b>

**22. OTHER NON-OPERATING INCOME**

	<b>2017</b>	<b>2016</b>
Reversal of Impairment Loss	611,781,036	51,104,667
Gain on Sale of Investments	4,575,572	26,083,703
	<b>616,356,608</b>	<b>77,188,370</b>

**23. PERSONNEL SERVICES**

	<b>2017</b>	<b>2016</b>
Salaries and Wages	456,886,529	448,142,876
Other Compensation	259,120,202	253,696,413
Personnel Benefit Contributions	264,204,207	253,312,088
Other Personnel Benefits	59,302,658	59,270,935
	<b>1,039,513,596</b>	<b>1,014,422,312</b>

**23.1 Other Compensation**

	<b>2017</b>	<b>2016</b>
Year-end Bonus	114,617,368	79,335,570
Productivity Incentive Allowances	23,475,141	46,554,959
Representation Allowance	16,872,750	17,368,493
Transportation Allowance	16,599,608	17,014,812
Overtime and Night Differential	5,739,465	5,375,016
Personnel Economic Relief Allowance	3,596,731	3,666,135
Clothing/Uniform Allowance	2,798,393	3,008,929
Longevity Pay	2,249,829	2,147,298
Other Bonuses and Allowances	73,170,917	79,225,201
	<b>259,120,202</b>	<b>253,696,413</b>

**23.2 Personnel Benefit Contributions**

	<b>2017</b>	<b>2016</b>
Retirement and Life Insurance Premiums	54,312,067	53,990,804
PhilHealth Contributions	2,939,578	2,986,887
Employees Compensation Insurance Premiums	726,430	740,600
Pag-IBIG Contributions	705,769	739,400
Provident/Welfare Fund Contributions	205,520,363	194,854,397
	<b>264,204,207</b>	<b>253,312,088</b>



### 23.3 Other Personnel Benefits

	2017	2016
Terminal Leave Benefits	33,416,170	32,631,080
Other Personnel Benefits	25,886,488	26,639,855
	<b>59,302,658</b>	<b>59,270,935</b>

### 24. MAINTENANCE AND OTHER OPERATING EXPENSES

	2017	2016
Travel Expenses	19,227,850	17,546,290
Training Expenses	3,710,496	3,624,331
Supplies and Materials Expenses	10,807,460	11,035,130
Utility Expenses	45,715,784	42,148,987
Communication Expenses	7,539,112	5,759,798
Confidential, Intelligence and Extraordinary Expenses	6,945,563	7,579,565
Professional Services	39,432,601	43,403,112
General Services	27,877,087	28,820,310
Repairs and Maintenance	5,214,312	5,934,627
Taxes, Insurance Premiums and Other Fees	3,636,490	3,910,443
Other Maintenance and Operating Expenses	136,554,623	147,751,983
	<b>306,661,378</b>	<b>317,514,576</b>

#### 24.1 Travel Expenses

	2017	2016
Travel Expenses - Local	11,668,009	13,572,370
Travel Expenses - Foreign	7,559,841	3,973,920
	<b>19,227,850</b>	<b>17,546,290</b>

#### 24.2 Supplies and Materials Expenses

	2017	2016
Office Supplies Expenses	8,974,307	9,200,376
Fuel, Oil and Lubricants Expenses	976,931	1,037,354
Drugs and Medicines Expenses	248,932	225,389
Medical, Dental and Laboratory Supplies	65,445	60,745
Accountable Forms	0	76,000
Other Supplies and Materials	541,845	435,266
	<b>10,807,460</b>	<b>11,035,130</b>

### 24.3 Utility Expenses

	2017	2016
Electricity Expenses	40,969,722	37,459,365
Water Expenses	4,746,062	4,689,622
	<b>45,715,784</b>	<b>42,148,987</b>

### 24.4 Communication Expenses

	2017	2016
Telephone Expenses	4,634,388	2,591,412
Postage and Courier Services	1,850,790	2,349,633
Internet Subscription Expenses	1,053,934	818,753
	<b>7,539,112</b>	<b>5,759,798</b>

### 24.5 Professional Services

	2017	2016
Auditing Services	8,278,589	7,524,402
Consultancy Services	2,634,188	2,058,900
Other Professional Services	28,519,824	33,819,810
	<b>39,432,601</b>	<b>43,403,112</b>

### 24.6 General Services

	2017	2016
Security Services	16,607,871	17,098,025
Janitorial Services	10,238,012	10,665,148
Other General Services	1,031,204	1,057,137
	<b>27,877,087</b>	<b>28,820,310</b>

### 24.7 Repairs and Maintenance

	2017	2016
Repairs and Maintenance-Machinery and Equipment	3,925,793	4,765,042
Repairs and Maintenance-Transportation Equipment	568,673	703,447
Repairs and Maintenance-Leased Assets Improvements	388,888	0
Repairs and Maintenance-Buildings and Other Structures	320,069	442,998
Repairs and Maintenance-Furniture and Fixtures	10,889	23,140
	<b>5,214,312</b>	<b>5,934,627</b>

**24.8 Taxes, Insurance Premiums and Other Fees**

	<b>2017</b>	<b>2016</b>
Fidelity Bond Premiums	2,215,483	2,451,441
Insurance Expenses	1,354,470	1,401,915
Taxes, Duties and Licenses	66,537	57,087
	<b>3,636,490</b>	<b>3,910,443</b>

**24.9 Other Maintenance and Operating Expenses**

	<b>2017</b>	<b>2016</b>
Rent/Lease Expenses	99,536,004	93,596,361
Litigation/Acquired Assets Expenses	15,117,136	27,284,685
Directors and Committee Members' Fees	6,680,589	9,514,617
Subscription Expenses	5,131,223	4,984,872
Advertising, Promotional and Marketing	1,497,790	1,989,420
Membership Dues and Contributions to Organization	1,100,549	908,892
Printing and Publication Expenses	593,312	1,131,053
Other Maintenance and Operating Expenses	6,898,020	8,342,083
	<b>136,554,623</b>	<b>147,751,983</b>

**25. FINANCIAL EXPENSES**

	<b>2017</b>	<b>2016</b>
Interest Expenses	3,555,717,646	3,431,862,767
Management Supervision/Trusteeship Fees	287,986	286,975
Bank Charges	34,566	174,212
Other Financial Charges	3,856,589	6,326,786
	<b>3,559,896,787</b>	<b>3,438,650,740</b>

**26. NON-CASH EXPENSES**

	<b>2017</b>	<b>2016</b>
Provision for Insurance Losses	19,350,790,870	14,589,418,889
Depreciation	15,344,135	17,757,715
Amortization – Intangible Assets	10,164,199	13,526,916
Impairment Loss - Other Receivables	8,275	3,070,895
Losses	20,938	412,963,602
	<b>19,376,328,417</b>	<b>15,036,738,017</b>

## 26.1 Losses

	2017	2016
Loss Foreign Exchange	20,938	63,405
Rehabilitation Cost	0	412,900,197
	<b>20,938</b>	<b>412,963,602</b>

## 27. TAXES

The Corporation is exempt from income tax, final withholding tax, value-added tax on assessment collections from member banks and local taxes in accordance with Section 22 c of R.A. 3591, as amended. This is being implemented through BIR Revenue Regulation No. 6-2010 dated June 29, 2010.

The BIR issued the tax clearance in favor of PDIC in view of the Corporation's settlement of BIR's VAT assessment for 2009. Accordingly, CTA Case No. 9114 has been withdrawn upon joint motion of BIR and PDIC.

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 2017 and 2016:

	2017	2016
Withholding Taxes:		
On Compensation and Benefits	145,958,888	151,878,759
Creditable Withholding Taxes	40,513,373	43,864,955
Final Withholding Taxes	343,719	322,689
Value Added Tax (VAT)	15,278,121	46,083,613
BIR Annual Registration Fee	500	500
	<b>202,094,601</b>	<b>242,150,516</b>

In accordance with R.A. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) law, PDIC will no longer be exempt from the payment of VAT on assessment collections starting January 1, 2018. However, the same law allows the charging of PDIC's VAT obligations on assessment collections against the Tax Expenditure Fund (TEF) of the government.

## 28. DIVIDENDS TO THE NATIONAL GOVERNMENT

Dividends to the National Government was declared in the amount of ₱2.844 billion and ₱2.661 billion, representing 50 per cent of net income from other sources in 2017 and 2016, 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 both agreed to fix the amount in question and the initial remittance of ₱4.8 billion. 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, the parties agreed to refer to the Department of Justice (DOJ) for opinion/resolution the issue with regard to the basis of the dividends due to the National Government.

## **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 ₱125.205 million and ₱113.395 million as at December 31, 2017 and 2016, 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

Forty-three (43) cases were filed against the Corporation for payment of deposit insurance in the estimated amount of ₱81.805 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

As at December 31, 2017, total insured deposits up to the ₱500,000 maximum deposit insurance coverage amounted to ₱2.43 trillion consisting 57.09 million accounts. This is equivalent to 20.76 per cent of the total deposits of ₱11.71 trillion in the banking industry.

### **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 305 closed banks, remaining banks under liquidation by PDIC as of December 31, 2017 stood at 371 closed banks, including the 7 banks closed in 2017. The total estimated realizable value of assets (ERVA) and liabilities of the 371 closed banks amounted to ₱33.86 billion and ₱138.05 billion, respectively. As of December 31, 2016 there were 367 closed banks with ERVA of

₱39.63 billion and liabilities of ₱142.99 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.

### **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:

	<b>Maximum Exposure</b>	<b>Fair value of collateral or credit enhancement</b>	<b>Net Exposure</b>
<b>2017</b>			
Notes Receivable	1,062,658,991	1,062,390,862	268,129
<b>2016</b>			
Notes Receivable	1,075,707,649	1,071,707,649	4,000,000

### *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 by law that would give the most advantageous results. Senior management is actively involved in the Asset Liability Committee headed by the President 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, 2017.

	<b>On Demand</b>	<b>Up to 3 months</b>	<b>&gt; 3 up to 12 months</b>	<b>&gt; 1 up to 5 years</b>
<b>As at December 31, 2017</b>				
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
	<b>1,845,940,803</b>	<b>0</b>	<b>98,449,923</b>	<b>P 62,467,022,364</b>
<b>As at December 31, 2016</b>				
Accounts Payable and Due to Officers and Employees	84,183,306	0	0	0
Insured Deposit Claims Payable	293,725,825	0	0	0
Notes Payable	1,581,049,675	0	12,845,343,145	39,245,482,813
	<b>1,958,958,806</b>	<b>0</b>	<b>12,845,343,145</b>	<b>39,245,482,813</b>



	> 5 up to 10 years	> 10 up to 20 years	Over 20 years	Total
<b>As at December 31, 2017</b>				
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
	<b>0</b>	<b>0</b>	<b>105,831,341</b>	<b>64,517,244,431</b>
<b>As at December 31, 2016</b>				
Accounts Payable and Due to Officers and Employees	0	0	0	84,183,306
Insured Deposit Claims Payable	0	0	0	293,725,825
Notes Payable	7,922,402,663	0	99,559,117	61,693,837,413
	<b>7,922,402,663</b>	<b>0</b>	<b>99,559,117</b>	<b>62,071,746,544</b>

### Capital Management

PDIC aims to maintain a 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 in 2017.

The target ratio range represents the ability of the Corporation to cover anticipated and unanticipated risks in the banking system 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, 2017, DIF stood at ₱ 147.15 billion while EID is estimated at ₱2.431.52 trillion resulting to a DIF/EID ratio of 6.05%.

### 33. PRIOR PERIOD ADJUSTMENT

In view of the 2009 VAT settlement relative to Court of Tax Appeals Case No. 9114, the beginning balance of retained earnings in 2016 was adjusted by P200 million.

### 34. RECLASSIFICATION OF ACCOUNTS

Reclassification of accounts was made to conform with the Revised Chart of Accounts prescribed by the Commission on Audit.