



*Bank deposit mo, protektado!*

## **DISCLOSURE ON MATERIAL RISK FACTORS<sup>1</sup> AND MEASURES TAKEN TO MANAGE RISKS IN 2023**

### **General Risk Management Framework**

Established in 2013 with the approval of the Board Risk Management Committee (BRMC) Charter, the general risk management framework was updated with the approval of the PDIC Board of the Enterprise Risk Management (ERM) Framework on 21 December 2021.

The ERM Framework describes the key principles, elements, and processes to manage the risks of the Corporation effectively and efficiently. It illustrates how risk management is embedded in the PDIC's management processes and organizational systems contributing to decision-making and resource allocation of the Corporation.

In 2023, PDIC continued implementation of health and safety protocols and the work from home arrangements aligned with the Civil Service Commission (CSC) Circular on alternative work arrangements.

Risk awareness and employee risk preparedness were continuously enhanced through the conduct of orientations and briefings for risk analysts while onboarding sessions were conducted for new personnel. Various training programs were likewise conducted, namely: (a) Occupational Safety and Health conducted on 31 August 2023; (b) two (2) seminars on Emergency and Fire Safety conducted by the Bureau of Fire Protection (BFP) on 28 September 2023; and (c) ISO 31000 (Risk Management) briefings conducted in April and May 2023.

Collaboration among the Risk Management Office (RMO), Corporate Governance Office (CGO) and Internal Audit Group (IAG) which started in 2021 under the Governance, Risk and Compliance (GRC) Framework continued contributing to the enrichment of the risk management process. This likewise facilitated the identification of new risks, and the initiation of measures by concerned groups and offices of the Corporation to effectively address these risks.

PDIC also strengthened its risk management through the signing of a Memorandum of Understanding (MOU) with the BFP on 20 June 2023. The MOU entitled "KAISA Safety Partner Program – Call-To-Action Against Destructive Fire Campaign", enhanced cooperation between the PDIC and the BFP in promoting self-reliance in preventing fires.

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

Key risks and other risk-related matters were regularly updated, monitored and reported to the Enterprise and Board Risk Management Committees (E/BRMC). Aside from updates, these reports provide top management and the Board with recommendations on programs and policies aimed at addressing the identified risks effectively and efficiently.

### **Management of Material and Operational Risks**

In managing the material and operational risks of the Corporation, PDIC's President and CEO (P/CEO) as Chairperson, with senior management as members, oversees the Asset Liability Committee (ALCO) which is responsible for formulating prudent asset / liability management strategies and policies concerning investment and portfolio mix, liquidity risk, market risk, credit risk and purchased assets management, among others, to enable the Corporation to achieve its goals while operating in compliance with its mandate<sup>2</sup>. On the other hand, operational risks are reported to the Enterprise Risk Management Committee as headed by the P/CEO with senior management as members. These Committees provide policy direction and are responsible in endorsing policies and measures that require Board action.

### **Financial Risks**

The Corporation is exposed to a variety of financial risks such as market, credit, and liquidity risks. The financial risks are identified, measured and monitored to assess market conditions in order to mitigate possible financial risks 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.

On the management of its investment, PDIC is allowed to invest only in obligations of the Republic of the Philippines (ROP) or in obligations guaranteed by the ROP. Majority of these investments are readily liquefiable in the secondary market and can easily be converted to liquid funds should the need arise.

#### *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, or assets assigned to PDIC will not be recovered.

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

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<sup>2</sup> Office Order 02 Series of 2007

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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 compliance with the covenants in the loan agreements. The Corporation likewise mitigates such risk and ensure adequate protection for PDIC through established parameters in accepting collaterals and assets assigned to PDIC.

#### *Liquidity risk*

Liquidity risk is the adverse situation when the Corporation encounters difficulty in meeting unconditionally the settlement of insurance claims and its obligations at maturity. Liquidity management is a major component of the corporate-wide risk management system. Liquidity planning takes into consideration possible changes in economic, market, political, regulatory, and other external factors that may affect the liquidity position of the Corporation.

PDIC liquidity management policy is to maintain optimal liquid cash funds to adequately finance its operational requirements at any given time. The Corporation's funding requirements are generally met through any or a combination of financial modes allowed by law that would give the most advantageous results.

Part of the consideration in determining the operational fund requirement is the report on Risk Classification of Banks. This is presented quarterly to the Board in order to determine the number of banks considered at risk and their corresponding risk exposure, represented by the banks' Estimated Insured Deposits (EID). This report serves as input in the Deposit Insurance Fund (DIF) targeting, as well as for planning and budgeting activities attendant to bank closure.

The Corporation is authorized to borrow from the Bangko Sentral ng Pilipinas (BSP) and from designated depository or fiscal agent of the Philippine Government for insurance and financial assistance purposes. The PDIC Board approved in 2023 the revisions to the Financial Crisis Management Plan (FCMP)<sup>3</sup> addressing the gaps identified during a simulation exercise done in 2022. The revised FCMP includes the contingency funding plan to ensure funding support in the event of a financial crisis.

Also, as provided in its Charter, the Corporation, with the approval of the President of the Philippines, upon the recommendation of the Department of Finance (DOF), is authorized to issue bonds, debentures, and other obligations, both local or foreign, as may be necessary for the purposes of providing liquidity for the settlement of insured deposits and the implementation of bank resolution.

On 03 October 2023, the P/CEO approved the renewal of the Short-Term Loan Line with the Land Bank of the Philippines (LBP) which serves as a standby facility in case the

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<sup>3</sup> The FCMP is a consolidation of four (4) Crisis Preparedness Plans to include Communication, Funding, Takeover and Claims Settlement. The Communication and Funding Plans were approved by the PDIC Board in 2020, while the Takeover and Claims Settlement Plans were approved in 2021.

Corporation needs immediate additional short-term funds for payout activities. This action was likewise confirmed by the PDIC Board in its meeting on 29 November 2023.

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### *Capital Management*

As a measure of capital management adequacy, a range target ratio level of five and a half percent to eight percent (5.5% - 8.0%) of the DIF to EID is maintained for 2023 since its approval by the PDIC Board of Directors in 2017.

The target represents the ability of the Corporation to cover both anticipated and unanticipated risks in the banking system and to promptly respond to possible insurance calls and financial assistance to banks, as may be warranted.

On 28 June 2023, however, the PDIC Board approved a revised target range for 2024 of six and a half to nine percent (6.5% - 9.0%). Likewise, preparatory steps to review the methodology in setting the DIF target was conducted. These include the Terms of Reference for the Procurement of Consulting Services for PDIC's Study on DIF Targeting Methodology which was noted by the PDIC Board on 28 February 2023.

On 27 September 2023, the contract with SGV & Co. as service provider for the Engagement of Consulting Services for PDIC's Study on DIF Targeting Methodology was signed. The project is expected to be completed on 26 February 2024.

### *Other Financial Risks*

Aside from its regular activities to mitigate risks to the DIF, PDIC actively participates as a member of the Financial Stability Coordination Council (FSCC). Together with key financial regulators as members, namely, the BSP, the DOF-Bureau of the Treasury (BTr), the Insurance Commission (IC) and the Securities and Exchange Commission (SEC), PDIC contributes in the active monitoring, surveillance, mitigation or resolution of risks in the financial system. PDIC is guided by a set of guidelines setting forth the course of actions that it shall pursue in normal times and during a financial crisis.

### **Business Continuity Risks**

Business continuity risks refer to the failure to deliver critical services in the event of a disaster or crisis.

In 2023, alternative work arrangements aligned with the CSC circular continued to be implemented. To ensure security and continuous and efficient delivery of services and enhance the productivity of PDIC personnel, in addition to systems implemented in 2022.

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

The gradual transfer to the newly renovated PDIC Building in Pasong Tamo from the SSS Building in Ayala Avenue, Makati was continued with roughly 40% of personnel being

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transferred by yearend. The renovations were designed for the enhancement of its operations as well as improve the safety and security of PDIC personnel and its properties.

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In 2023, as part of the crisis management program, PDIC enhanced its crisis management plans, namely: Communications, Funding, Takeover and Claims Settlement, based on the results of the internal simulation conducted in 2022. Enhancements to these plans were presented to and approved by the PDIC Board on 29 November 2023.

### **Reputational Risks**

Reputational risks pertain to the possible negative image of PDIC to its stakeholders. Whether true or not, these risks may result in diminution of trust of stakeholders, dissatisfaction of clients, costly litigation, and/or revenue reduction.

#### *News and Social Media Monitoring*

To monitor developments and proactively manage the reputation of the Corporation, an external service provider was continuously engaged to monitor daily news reports related to PDIC and the banking and finance industries published on traditional and online media; and monitor mentions/posts on PDIC and public/stakeholder sentiment regarding the Corporation on social media. This information was made available to the members of the Executive and Management Committee on a daily basis.

As of the last quarter 2023, the procurement for the renewal of services of external service provider is ongoing.

#### *Customer Handling*

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PDIC continues to deliver its services in accordance with its Citizen's Charter and the Anti-Red Tape Authority (ARTA).

In 2023, PDIC continued the implementation of the Closed Bank Loan Incentive Program (CLIP)<sup>4</sup> for borrowers. The program started on 1 July 2021 and was enhanced and extended until 21 December 2022. Due to its success, the program was further enhanced and extended until December 2024 as approved by the PDIC Board in its meeting on 13 December 2023.

#### *Stakeholder Engagement & Communication*

The PDIC continuously monitors the news and public/stakeholder sentiment or perception over mainstream media and on social media. Pertinent news items which may adversely affect corporate reputation are promptly referred to Management for action. Management is also provided with daily news alerts published or broadcast

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<sup>4</sup> CLIP is an easy payment and zero penalty initiative that offers substantial discounts to closed bank borrowers with principal loan balances of P1.0 million and below who will opt to pay through a one-time cash settlement.

through traditional/online media, and quarterly updates on media presence/ impact through media analytics.

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When required, clarifications are made through letters to the editor or columnist for rectification, while radio or TV Interviews through live guesting or phone patch by the designated PDIC official is pursued to address issues raised in the media or to promote the Corporation's advocacies.

On the other hand, questions, requests and concerns by clients and stakeholders are referred to PDIC's Public Assistance Desk (PAD) for appropriate action and/or referral to the concerned groups. Advisories on recent developments that will have an impact on how services are delivered are announced through the website and social media.

The Corporation continued to leverage digital technology to deliver messages to and communicate with external stakeholders. This is done through its official website<sup>5</sup>, social media platforms<sup>6</sup>, and by way of virtual meetings and appearances in live-streamed media interviews. External communication through text blasts and traditional media (print and broadcast) continued to be implemented. For information dissemination, particularly targeted at closed bank's stakeholders, PDIC continued to conduct Depositor Borrower's Forums (DBF) either through physical or virtual mode, as applicable.

#### *Collaboration with International Partners*

To capitalize on existing beneficial engagements and monitor emerging issues in global deposit insurance, PDIC sustains collaboration with the International Association of Deposit Insurance (IADI) to promote compliance to the IADI Core Principles for Effective Deposit Insurance Systems that focuses on setting global standards for deposit insurance operations. Bilaterally, PDIC also works closely with other deposit insurers and international financial institutions for technical assistance and knowledge exchange.

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PDIC, through its President and CEO Roberto B. Tan, continues to occupy a significant role in the global deposit insurance community as Treasurer of the IADI assisting the IADI President on governance related to financial oversight of the Association, and as the Vice Chairperson of the IADI Asia-Pacific Regional Committee.

In 2023, senior management and staff participated in 25 international meetings and conferences, which allowed for the knowledge sharing and strengthening of relationships with other Deposit Insurance Agencies (DIAs). Of the 25 meetings, PDIC hosted four (4) Web Talks<sup>7</sup> wherein PDIC invited experts from IADI and other DIAs to discuss emerging issues and best practices in deposit insurance, including the role of deposit insurance in climate change.

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<sup>5</sup> [www.pdic.gov.ph](http://www.pdic.gov.ph)

<sup>6</sup> <https://www.facebook.com/OfficialPDIC/> ; <https://twitter.com/OfficialPDIC> ; <https://www.linkedin.com/company/philippine-deposit-insurance-corporation-2022/about/>

<sup>7</sup> Web Talks is an initiative of PDIC to further enhance knowledge sharing among DIAs using online platforms, i.e. MS Teams.

## Operational Risks

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

The Corporation continues to implement its Quality Manual (QM) which defines and clarifies policies, systems, and procedures to implement and continuously improve PDIC's quality management system (QMS). In 2023, PDIC maintained its various ISO Certifications for its Claims Settlement Operations, Assessment of Member Banks, Real Property Disposal Operations, Loans Management and Bank Examination including support processes under the ISO 9001:2015 Quality Management System standards. These certifications provide quality assurance to the Corporation's stakeholders in the delivery of its frontline services.

### *Claims Settlement, Receivership and Liquidation*

Online filing and payments of claims for insured deposits were continuously implemented for the convenience and safety of depositors, through the following modes:

- Deposit Insurance claims made through Philippine Postal Corporation Check payments.
- Web-based claim form made available in the PDIC website depositor's corner.
- Landbank Cash over the Counter – payments made through all branches Philippine Postal Corporation (Postal Money Order/Delivery Express Mail Service).
- DBP Multi-Channel Disbursement Facility – for payment of insured deposits via direct credit to depositors' bank accounts and e-wallets (e.g. G-cash).

While Receive, Process and Mail mode of claims settlement operations is still available in consideration of security and safety of personnel, PDIC resumed the Field Operations Claims Settlement (FOCS) in payout operations taking into consideration the health and safety protocols.

To comply with the Rules on Liquidation of Closed Banks on the 5-7 years termination of liquidation proceedings, the Board approved in 2021 the shift in corporate target from "reduction" of the loan and Real and Other Properties Acquired (ROPA) portfolio to the filing of Asset Disposal Plans (ADPs) with the Liquidation Court (LCs) in 2022. A total of 43 ADPs were filed with the LCs as of December 2023.

In support thereof, strategies for disposal of acquired assets and loan resolutions were continuously refined with the intention of converting the portfolio of the assets being managed by the PDIC into cash and, in the process, reducing costs to optimize recovery for the benefit not only of PDIC but of closed banks' creditors. In 2023, the following programs were continuously implemented:

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- 11 biddings of properties conducted, with 10 biddings through electronic (online) bidding and 1 hybrid (simultaneous face-to-face and on-line done in Davao City in March 2023)
  - The CLIP benefitted borrowers involving 712 accounts as of 30 September 2023.

Other disposal strategies were maintained which included the strengthening of marketing efforts through more aggressive advertising campaigns, maximizing the use of social media and strengthening collaborations with other government institutions. Benchmarking with other government agencies on their disposal and recovery practices was continuously undertaken.

#### *Bank Examination & Resolution*

Bank examination methodologies are constantly enhanced to strengthen PDIC's capability of assessing the safety and soundness of an examined bank's deposit operations to better protect the DIF and depositors.

Joint examinations of banks with the BSP were conducted through various modes, namely: (a) Offsite/Online, if there are travel restrictions due to the pandemic; (b) Hybrid or blended (mix onsite and offsite), for banks with branches that are in areas where there are travel restrictions, and (c) Onsite or when face-to-face is allowed.

Likewise, inspection, review and examination of banks with financial assistance (FA) from PDIC were conducted to ensure compliance of banks with the covenants as stipulated under the FA agreement with PDIC.

#### *Human Resources Administration and Organizational Development*

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In 2023, strategies to hire and attract new employees including enhanced publications of vacancies, adoption of the revised qualification standard, and streamlined recruitment, selection and placement procedures were continuously implemented.

Plantilla items for critical functions including items for casual personnel who will be performing regular functions were identified, created and filled-up to augment the current plantilla of the Corporation. The manpower complement of the Human Resource Group (HRG) was augmented with the hiring of casual employees to address the target in recruitment and promotion of personnel and prepare the requirements for the implementation of the new Organization Structure and Staffing Pattern (OSSP).

To strengthen PDIC's competitiveness, the Compensation and Position Classification System (CPCS) was adopted starting July 2023.



## **Legal Risks**

Legal risks refer to the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations or conditions of PDIC.

In 2023, continuous coordination and consultations with various agencies including the Department of Justice (DOJ), the Office of the Government Corporate Counsel (OGCC), Office of the Solicitor General (OSG), DOF and the BSP were conducted to discuss and address legal issues and enhance cooperation.

## **Regulatory & Compliance Risks**

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

These risks are mitigated through the continuous identification, monitoring and reporting by the process owners to the RMO for further analysis and reporting to the PDIC Board and Management. The CGO on the other hand monitors the compliance requirements (e.g. laws, rules and regulations) from various regulatory bodies including the Governance Commission for GOCCs (GCG), CSC or the Commission on Audit (COA) while the IAG, reviews compliance requirements through its regular Compliance Audit activities.

In 2023, continuous monitoring of laws, rules and regulations issued by but not limited to the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF-EID), CSC and ARTA were done and corresponding internal rules and guidelines were issued/revised for compliance.

Among the significant contributions of the Corporation include the remittance of dividends to the National Government totaling PhP 14.05 Bn in 2023, which represents the following: (a) PhP 7.04495 Bn – regular dividends for 2022 and remitted on 24 March 2023; (b) PhP 0.06 Mn – additional dividends based on COA and remitted on 23 May 2023; (c) PhP 5.0 Bn – additional dividends for 2022 and remitted on 16 November 2023; and (d) PhP 2.0 Bn – advance dividends for 2023 and remitted on 16 November 2023.

## **Information Security & Data Privacy Risks**

Information security and data privacy management ensure that information as well as personal data are protected to safeguard its availability, confidentiality, integrity at all times and to comply with the principles of data privacy. The Corporation continues to keep abreast with trends in information security and data privacy to ensure that Information Technology (IT) risks and privacy risks are controlled.

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In 2023, PDIC continuously updated its IT security systems. The following new/enhancements in ICT systems and infrastructure were implemented:

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1. Patch Management System which ensures the automatic updating of information systems.
2. Data Loss Prevention and Protection System to ensure data security and traceability.
3. Privilege Access Management System likewise ensuring data security and traceability among identified system administrators for key IT systems of the Corporation.
4. Board Room Conference System allowing for the conduct of hybrid meetings.
5. Corporate Budget System allowing ease for budgeting and tracking the use of financial resource.

Compliance with the Data Privacy Act of 2012 through the conduct of privacy impact assessments, review of data sharing agreements, response to security incidents and possible breaches of personal data were constantly performed by the Data Protection Officer (DPO) as supported by the Deputy DPO, Compliance Officers for Privacy (COPs) and the Data Breach Response Team.

The Information Systems Strategic Plan (ISSP) for 2021-2024 was updated/revised to cover the period 2023-2028. This was then submitted to the Department of Information and Communications Technology in September 2023. The revised ISSP aims to support the Corporation's digital transformation, and ensure that priority systems are implemented taking into consideration the fast pace of the developments in IT.

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