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

We have audited the accompanying financial statements of the Philippine Deposit Insurance Corporation which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in deposit insurance fund, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Philippine Deposit Insurance Corporation** as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 14 to the financial statements which disclosed that Loans payable to the Bangko Sentral ng Pilipinas (BSP) did not include the principal amount of P1.44 billion and interest of P1.63 billion 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.

Other Matters

The Corporation's remittance of dividends to the National Government (NG) covering the period from 2004 to 2015 was deficient by P23.817 billion because Reserves for insurance losses totaling P47.634 billion was deducted from Net Earnings to arrive at the amount of dividends due to NG. Pursuant to Section 2 of Republic Act (R.A.) No.7656, otherwise known as the Dividends Law, any reserve for whatever purpose is not allowed as a deduction from net earnings. PDIC maintains that the dividends declared and remitted to NG were not deficient and were based on Section 6 (d) of the PDIC Charter, as amended, which allows reserves to provide for insurance and financial assistance losses, among others against annual assessments collected from banks and from income from operations.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required by the Bureau of Internal Revenue on taxes, duties and license fees disclosed in Note 25 to the financial statements is presented for purposes of additional analysis and is not a required part of financial statements prepared in accordance with Philippine Financial Reporting Standards.

Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

By:

EDUARDO D. PADERNAL
State Auditor V
Supervising Auditor

April 29, 2016

PHILIPPINE DEPOSIT INSURANCE CORPORATION

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 years ended December 31, 2015 and 2014, 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 before such statements are issued to users.

The Commission on Audit (COA) has audited the financial statements of the PDIC and in its report will express its opinion on the fairness of presentation upon completion of such examination.

SANDRA A. DIAZ
Senior Vice President
Management Services Sector

GERONIMO V. AMBE
Vice President
Comptrollership Group

CRISTINA Q. ORBETA
President

April 22, 2016

PHILIPPINE DEPOSIT INSURANCE CORPORATION
(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2015 and 2014

	Note		2015		2014
ASSETS					
Cash and cash equivalents	3	₱	500,135,671	₱	2,156,756,822
Investment securities at amortized cost	4		165,404,437,305		144,347,855,116
Loans and receivables	5		8,214,621,942		8,457,006,286
Financial assets at fair value through other comprehensive income	6		37,804,600		3,679,804,600
Non-current assets held for sale	7		220,080,577		1,386,255,846
Investment properties	8		1,375,624,310		323,006,981
Property and equipment	9		135,688,291		129,825,387
Intangible assets	10		39,884,387		43,731,559
Other assets	11		1,302,076,257		1,261,673,342
TOTAL ASSETS		**₱**	**177,230,353,340**	**₱**	**161,785,915,939**
LIABILITIES AND DEPOSIT INSURANCE FUND					
Liabilities					
Accounts payable and other liabilities	12	₱	2,693,890,443	₱	2,497,296,985
Insured deposit claims payable	13		344,214,708		574,297,836
Loans and interest payable	14		61,480,466,105		58,611,066,649
			64,518,571,256		**61,682,661,470**
Deposit Insurance Fund					
Permanent insurance fund			3,000,000,000		3,000,000,000
Reserves for insurance losses			80,064,284,612		69,734,318,049
Retained earnings			29,647,497,472		27,368,936,420
			112,711,782,084		**100,103,254,469**
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND		**₱**	**177,230,353,340**	**₱**	**161,785,915,939**

The Notes on pages 9 to 37 are integral part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2015 and 2014

	Note		2015		2014
INCOME					
Assessments	16	₱	16,810,270,093	₱	15,076,167,845
Income from investments	17		7,019,647,364		6,147,336,911
Income from financial assistance	18		172,910,602		282,175,179
Other income (loss)	19		637,366,620		(291,644,636)
			24,640,194,679		**21,214,035,299**
EXPENSES					
Operating expenses	21		1,526,359,308		1,389,656,746
Provision for insurance losses	22		10,329,966,563		5,839,000,000
Insurance and financial assistance losses	23		4,953,944,222		5,780,325,944
Interest on borrowings	24		3,272,802,483		3,208,816,412
			20,083,072,576		**16,217,799,102**
INCOME BEFORE TAX			**4,557,122,103**		**4,996,236,197**
Income tax expense	25		0		734,321,078
INCOME BEFORE TAX SUBSIDY			**4,557,122,103**		**4,261,915,119**
Income from tax subsidy	20		0		3,093,151,615
NET INCOME			**4,557,122,103**		**7,355,066,734**
Other comprehensive income			0		0
TOTAL COMPREHENSIVE INCOME		**₱**	**4,557,122,103**	**₱**	**7,355,066,734**

The Notes on pages 9 to 37 are integral part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)
STATEMENTS OF CHANGES IN DEPOSIT INSURANCE FUND
For the years ended December 31, 2015 and 2014

	Note		2015		2014
PERMANENT INSURANCE FUND					
Balance at beginning / end of year		₱	**3,000,000,000**	₱	**3,000,000,000**
RESERVES FOR INSURANCE LOSSES					
Balance at beginning of year			69,734,318,049		63,895,318,049
Additions for the year	22		10,329,966,563		5,839,000,000
Balance at end of year			**80,064,284,612**		**69,734,318,049**
RETAINED EARNINGS					
Balance at beginning of year			27,368,936,420		22,144,827,246
Net income			4,557,122,103		7,355,066,734
Dividends to the National Government	26		(2,278,561,051)		(2,130,957,560)
Balance at end of year			**29,647,497,472**		**27,368,936,420**
DEPOSIT INSURANCE FUND		₱	**112,711,782,084**	₱	**100,103,254,469**

The Notes on pages 9 to 37 are integral part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2015 and 2014

	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Assessment collections		₱ 16,813,320,838	₱ 14,937,745,420
Receipt of income from investments		8,172,742,506	7,065,944,979
Collections of loans and assets acquired from banks		233,944,695	8,032,697,761
Collections of subrogated claims receivable		152,002,965	149,161,112
Dividends, service and miscellaneous income		150,191,763	68,713,554
Receipt of income from financial assistance		127,929,020	54,518,889
Collections of accounts receivable-receivership and liquidation		30,070,742	80,567,509
Loans extended to banks		0	(142,000,000)
Payments of taxes		(67,313)	(56,854)
Advances for receivership and liquidation operations		(6,615,870)	(9,823,805)
Payments of cash advances and various receivables		(17,040,314)	(14,613,851)
Collections/Payments of various payables		(199,242,058)	(95,121,360)
Payments of interest on borrowings		(239,063,908)	(714,838,220)
Payments of insured deposits		(1,291,632,687)	(1,965,134,276)
Payments of maintenance and other operating expenses		(1,314,977,867)	(1,253,275,372)
Net cash provided by operating activities		**22,611,562,512**	**26,194,485,486**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from matured investments		98,002,088,727	89,453,950,940
Legal liability insurance fund managed by LBP Trust		(6,089,999)	(245,500,914)
Acquisition of property and equipment		(18,193,967)	(8,250,733)
Placements in various investments		(120,214,169,178)	(111,268,071,848)
Net cash used in investing activities		**(22,236,364,417)**	**(22,067,872,555)**
CASH FLOWS FROM FINANCING ACTIVITIES			
NG share on insured deposit payments		166,279,000	2,792,340,000
Borrowings from BSP		0	179,804,600
Final withholding tax charged to Tax Expenditure Fund		0	877,636,796
Payments of loans to BSP		(67,122,793)	(7,739,151,026)
Payment of dividends to National Government		(2,130,957,560)	(1,082,748,771)
Net cash used in financing activities		**(2,031,801,353)**	**(4,972,118,401)**
Effects of foreign currency revaluations		**(17,893)**	**(44,365)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,656,621,151)**	**(845,549,835)**
CASH AND CASH EQUIVALENTS, BEGINNING		2,156,756,822	3,002,306,657
CASH AND CASH EQUIVALENTS	3	**₱ 500,135,671**	**₱ 2,156,756,822**

The Notes on pages 9 to 37 are integral part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2015 and 2014

	Note		2015		2014
INCOME					
Assessments	16	₱	16,810,270,093	₱	15,076,167,845
Income from investments	17		7,019,647,364		6,147,336,911
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Income from tax subsidy	20		0		3,093,151,615
NET INCOME			**4,557,122,103**		**7,355,066,734**
Other comprehensive income			0		0
TOTAL COMPREHENSIVE INCOME		₱	**4,557,122,103**	₱	**7,355,066,734**

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PHILIPPINE DEPOSIT INSURANCE CORPORATION
(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)
STATEMENTS OF CHANGES IN DEPOSIT INSURANCE FUND
For the years ended December 31, 2015 and 2014

	Note		2015		2014
PERMANENT INSURANCE FUND					
Balance at beginning / end of year		₱	**3,000,000,000**	₱	**3,000,000,000**
RESERVES FOR INSURANCE LOSSES					
Balance at beginning of year			69,734,318,049		63,895,318,049
Additions for the year	22		10,329,966,563		5,839,000,000
Balance at end of year			**80,064,284,612**		**69,734,318,049**
RETAINED EARNINGS					
Balance at beginning of year			27,368,936,420		22,144,827,246
Net income			4,557,122,103		7,355,066,734
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Net cash used in financing activities			**(2,031,801,353)**		**(4,972,118,401)**
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CASH AND CASH EQUIVALENTS, BEGINNING			2,156,756,822		3,002,306,657
CASH AND CASH EQUIVALENTS	**3**	**₱**	**500,135,671**	**₱**	**2,156,756,822**

The Notes on pages 9 to 37 are integral part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Philippine Deposit Insurance Corporation (PDIC) is a government corporation established on June 22, 1963 with the passage of Republic Act No. 3591, as amended. 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 also mandated by law to act as receiver/liquidator of closed banks and co-regulator of banks, in which it 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, 2015, PDIC's total manpower[1] complement stood at 614 (214 officers and 400 rank and file employees), 605 of whom were of permanent status and nine were coterminous. The position of the President was filled by election among the Members of the PDIC Board of Directors, of which three members were appointed by the President of the Philippines 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 January 27, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

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 Standards 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 are accounted for separately to properly account for the assets and liabilities of the Corporation vis-â-vis the closed banks to ensure that liquidation proceeds of closed banks assets are distributed to pay its liabilities in accordance with applicable laws and regulations. Also, the income and expenses attributable to

[1] *Excluding externally-provided services by 393 personnel.*

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 accompanying financial statements have been prepared on a historical cost basis except for the revaluation of certain financial assets and liabilities which are measured either at amortized cost or at fair value. The financial statements are presented in Philippine Peso and all values are rounded to the nearest peso except when otherwise indicated.

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
- 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 making this judgment, by evaluating its intention and 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.

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
- It becoming probable 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 are credited against the allowance account. 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 related 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.

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.

d. Estimated useful lives of property and equipment

The Corporation uses the government-prescribed estimated useful lives of Property and Equipment account.

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 the accounting period beginning on or after January 1, 2015 up to December 31, 2015, there are no new amendments and interpretations to the accounting standards which will have an 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.

- PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective January 1, 2016).

  The amendments to PAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing PAS 1 requirements.

  The amendments clarify a) The materiality requirements in PAS 1; b) That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated; c) That entities have flexibility as to the order in which they present the notes to financial statements; and d) That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

  Early application is permitted and entities do not need to disclose that fact because the Board considers these amendments to be clarifications that do not affect an entity's accounting policies or accounting estimates.

These amendments are intended to assist the Corporation in applying judgment when meeting the presentation and disclosure requirements in PFRS, and do not affect the financial statements' recognition and measurement.

- 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. 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.

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

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 and Loans Interest Bearing Notes.

Fair Value through Other Comprehensive Income (FVTOCI)

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

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

Derecognition of financial assets

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

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

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

b. Non-current 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 advances for 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 properties

The Corporation determines whether the acquired asset qualifies as investment property. Included in this account are assets leased under operating lease. These are initially booked at cost with periodic valuation for impairment.

d. Property 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.

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

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

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

e. Intangible assets

Intangible assets are stated in the financial statements at cost less accumulated amortization. They comprise 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 and points 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 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

An equity instrument is any contract that evidences a residual interest in the assets of the Corporation after deducting all of its liabilities. The Corporation classifies the deposit insurance fund as equity since it represents residual interests in the assets of the Corporation after deducting all of its liabilities.

Deposit insurance fund

The Deposit Insurance Fund (DIF) is the capital account of the Corporation and shall principally 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.

In 2012, the Corporation set the target level of DIF as a percentage of DIF to the estimated insured deposits (EID) of the banking industry at five per cent. The PDIC monitors also the ratio of DIF to the insurance reserve target based on risk assessment of insured banks (see Note 30).

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 an estimated loss for banks not yet closed but identified through a monitoring process as likely to fail in the future unless intervention from third party is made, such as the grant of financial assistance as part of a bank's rehabilitation. This probability of closure is the basis in determining the existence of a loss contingency. The insurance reserve is recorded in the books as Reserves for Insurance Losses.

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 were 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 6 of the Charter. This shall in no case be less than ₱5,000 and collected on a semestral basis. The amount of assessment is based on the average of deposit liabilities as at the close of business on March 31 and June 30 for the first semester and as at the close of business on September 30 and December 31 for the second semester. Such assessments are payable by banks not later than July 31 of the current year and January 31 of the ensuing year for the first and second semesters, respectively. Failure or refusal by any member bank to pay any assessment due allows the Corporation to file a collection case against the bank and impose administrative sanctions against its officers who are responsible for non-payment. Late payment of assessment is likewise subject to interest and penalty.

Income from investments

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

Income from financial assistance

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

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.

i. Employee benefits

Provident fund

In accordance with Section 8 (11) of the Charter, the Corporation has a Provident Fund, which is a defined contribution plan consisting of contributions made both by its officers and employees and the Corporation. Starting December 16, 2009, corporate contribution is vested to the employee based on their length of service in the Corporation as follows:

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

The Fund is administered by its Board of Trustees.

Retirement

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

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 policy.

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. 17 (d) 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. In applying the Optimal Cost Resolution principle, 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.

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. 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.

n. 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.

o. Taxes

In accordance with Section 17(c) of the R.A. 3591 (PDIC Charter), 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 are still subject to value-added tax.

3. CASH AND CASH EQUIVALENTS

This account includes the following:

	2015	2014
Cash on hand and in banks	₱ 115,108,699	₱ 102,492,291
Cash equivalents	385,026,972	2,054,264,531
	₱ 500,135,671	**₱ 2,156,756,822**

Cash on hand includes checks and other cash items received after the close of banking hours on the last business day of the year while *Cash in bank* consists of bank accounts for operating funds, pay-out funds, collections, emergency drawing and BSP current account.

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

4. INVESTMENT SECURITIES AT AMORTIZED COST

This account includes the following:

	2015	2014
Corporate investments	₱ 130,472,819,904	₱ 110,793,725,524
Sinking funds	34,931,617,401	33,546,838,290
Legal liability insurance fund (LLIF)	0	7,291,302
	₱ 165,404,437,305	**₱ 144,347,855,116**

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.

Corporate investments consist of special savings and time deposits, treasury bills, notes and bonds.

Sinking funds represent the accumulated balance of funds being built up to repay PDIC loans upon maturity, a portion of which is being managed by the BSP.

LLIF consists of investments held to finance legal expenses for possible cases that may be filed against directors, officers and employees of the Corporation in the performance of their duties. The balance in 2014 are unmatured securities which were eventually transferred as part of the LLIF managed by the Land Bank of the Philippines under a Trust Agreement classified as part of "Other Assets".

Interest income from investment securities at amortized cost amounted to ₱6.940 million and ₱ 6.118 million in 2015 and 2014, respectively (see Note 17).

5. LOANS AND RECEIVABLES

This account includes the following:

		2015		2014
Receivables – closed banks	₱	7,009,843,881	₱	7,009,843,881
Loans		1,148,637,623		1,239,663,520
Due from National Government		43,047,954		204,727,401
Interest receivables		613,479		1,989,640
Other receivables		12,479,005		781,844
	₱	**8,214,621,942**	**₱**	**8,457,006,286**

Receivables - closed banks

This account includes the following:

		2015		2014
Loans receivables-closed banks	₱	9,013,858,588	₱	9,013,858,588
Allowance for doubtful accounts		(2,004,014,707)		(2,004,014,707)
		7,009,843,881		7,009,843,881
Subrogated claims receivable		61,139,385,537		60,017,447,517
Subrogated claims receivable - NG Share		(4,857,621,452)		(4,881,231,401)
Allowance for doubtful accounts		(56,281,764,085)		(55,136,216,116)
		0		0
AR-receivership and liquidation		2,146,430,639		1,926,242,650
Allowance for doubtful accounts		(2,146,430,639)		(1,926,242,650)
		0		0
	₱	**7,009,843,881**	**₱**	**7,009,843,881**

Loans receivables – closed banks (LRCB) represent financial assistance by way of non-interest bearing loans and liquidity assistance to four banks that subsequently closed. No interest income is accrued on these loans owing to their past due status and uncertainty of collection.

Included in this account is one bank with financial assistance that was subsequently closed. Accrual of interest was stopped in view of its closure on April 27, 2012. Interest receivable that was not accrued/booked on the principal amount of ₱7.00 billion and ₱2.00 billion at the interest rate of one per cent and five per cent, respectively, totaled to

₱641.583 million and ₱469.22 million as at December 31, 2015 and 2014, respectively. The ₱7.00 billion loan and interest of ₱266.583 million will be paid from the Government Securities pledged. These were collected on March 30, 2016 as approved by the Liquidation Court.

Subrogated claims receivable (SCR) arises from payment by the Corporation of insured deposits since the Corporation is subrogated to all rights of the depositor against a closed bank to the extent of such payment. Such subrogation shall include 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 but such depositor shall retain his claim for any uninsured portion of his deposit.

Subrogated claims receivable – National Government (NG) Share account totaling ₱4.858 billion and ₱4.881 billion as at December 31, 2015 and 2014, respectively, represent insured deposits paid in excess of the first ₱250,000 for each depositor which is for the account of the National Government in accordance with Section 4 of Republic Act No. 9576.

Accounts receivable – receivership and liquidation (ARRL) represent expenses advanced by the Corporation in carrying out its mandate as receiver and liquidator of closed banks.

In accordance with the Guidelines on Allowance for Losses and Write-off of Assets, the allowance for losses for SCR and ARRL are set at 100 per cent owing to the insolvent status of closed banks and the inability to collect and/or length of time that the receivables are paid from the liquidation of closed bank's assets.

Reconciliation of the allowance for doubtful accounts *LRCB, SCR and ARRL are* as follows:

				2015		
		LRCB		**SCR**		**ARRL**
Balance at beginning of year	₱	2,004,014,707	₱	55,136,216,116	₱	1,926,242,650
Provisions during the year/adj.		0		1,145,547,969		220,187,989
Balance at end of year	**₱**	**2,004,014,707**	**₱**	**56,281,764,085**	**₱**	**2,146,430,639**

				2014		
		LRCB		**SCR**		**ARRL**
Balance at beginning of year	₱	2,141,552,241	₱	53,376,071,510	₱	27,062,553
Provisions during the year/adj.		(137,537,534)		1,760,144,506		1,899,180,097
Balance at end of year	**₱**	**2,004,014,707**	**₱**	**55,136,216,016**	**₱**	**1,926,242,650**

Loans

This account includes the following:

		2015		2014
Interest bearing loans	₱	1,029,358,907	₱	1,037,642,896
Loans - acquired assets		12,867,155,883		12,388,530,173
Allowance for doubtful accounts		(12,754,613,912)		(12,192,280,708)
		112,541,971		196,249,465
Sales contract receivable		40,019,561		39,053,975
Allowance for doubtful accounts		(33,282,816)		(33,282,816)
		6,736,745		5,771,159
Non-interest bearing loans-operating banks		430,141,868		712,598,369
Allowance for doubtful accounts		(430,141,868)		(712,598,369)
		0		0
Net loans	**₱**	**1,148,637,623**	**₱**	**1,239,663,520**

Interest bearing loans represent loans granted to one commercial bank and two rural banks, fully secured by government securities. Interest income from these loans is booked under the Income from Financial Assistance account (see Note 18).

Loans – acquired assets 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 (see Note 18). No interest income is accrued on these loans owing to their past due status.

Sales contract receivable are receivables from installment sales of assets acquired from banks as a mode of financial assistance.

Non-Interest bearing loans – operating banks represent loans granted to two commercial banks pursuant to Section 17 (d) of the amended PDIC Charter. As of December 31, 2015, delivery of transfer documents for the remaining balance is ongoing. No interest income is accrued on these loans owing to their past due status.

Reconciliation of allowance for doubtful accounts on various loans and receivables are as follows:

	2015					
		Loans Acquired Assets		Sales Contract Receivables		Non-interest Bearing Loans
Balance at beginning of year	₱	12,192,280,708	₱	33,282,816	₱	712,598,369
Provisions during the year/adj.		562,333,204		0		(282,456,501)
Balance at end of year	**₱**	**12,754,613,912**	**₱**	**33,282,816**	**₱**	**430,141,868**

	2014					
		Loans Acquired Assets		Sales Contract Receivables		Non-interest Bearing Loans
Balance at beginning of year	₱	9,651,212,993	₱	16,446,024	₱	3,931,531,418
Provisions during the year/adj.		2,541,067,715		16,836,792		(3,218,933,049)
Balance at end of year	**₱**	**12,192,280,708**	**₱**	**33,282,816**	**₱**	**712,598,369**

Due from National Government

This represents the balance of the share of the National Government (NG) in insured deposits paid in excess of ₱250,000. The NG has made cumulative reimbursements to PDIC in the amount of ₱4.843 billion and ₱4.881 billion as at December 31, 2015 and 2014, respectively, for banks closed from June 1, 2009 to May 31, 2012.

Interest receivables

This represents interest receivables from investments amounting to ₱0.613 million and ₱1.990 million as at December 31, 2015 and 2014, respectively.

Other receivables

This represents all other receivables including assessment deficiencies from member banks and banks that subsequently closed.

This account includes the following:

		2015		2014
Various clients	₱	72,228,582	₱	670,707
Banks - assessment deficiency/charges		566,719		111,137
Total		72,795,301		781,844
Allowance for doubtful accounts		(60,316,296)		0
	₱	**12,479,005**	**₱**	**781,844**

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FAFVOCI)

This account includes the following:

		2015		2014
Preferred shares	₱	37,804,600	₱	37,804,600
Capital notes		12,000,000,000		12,000,000,000
Allowance for probable losses		(12,000,000,000)		(8,358,000,000)
		0		3,642,000,000
	₱	**37,804,600**	**₱**	**3,679,804,600**

Preferred shares represent PDIC's subscription on December 19, 2014 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 to the bank.

Capital notes represent PDIC's subscription on March 31, 2009 to the Capital Notes issued by a commercial bank in the amount of ₱12 billion by way of conversion of the latter's outstanding obligations to PDIC. 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 said bank's rehabilitation on July 17 and 25, 2008 and a subsequent amendment thereto on November 21, 2008.

Reconciliation of allowance for probable losses on FAFVOCI is as follows:

		2015		2014
Balance at beginning of year	₱	8,358,000,000	₱	2,661,000,000
Provisions during the year		3,642,000,000		5,697,000,000
Balance at end of year	**₱**	**12,000,000,000**	**₱**	**8,358,000,000**

7. NON-CURRENT ASSETS HELD FOR SALE (NCAHFS)

This account includes the following:

		2015		2014
Assets acquired from banks	₱	275,534,446	₱	3,749,217,238
Allowance for probable losses		(55,453,869)		(2,362,961,392)
	₱	**220,080,577**	**₱**	**1,386,255,846**

These represent real and other properties acquired from financially assisted banks and assets received from closed banks in payment for subrogated deposits and advances for receivership and liquidation expenses. They are being held for sale and sale within the next 12 months is highly probable. The account declined mainly due to the reclassification of ₱2.63 billion acquired assets to investment properties, with corresponding allowance of ₱1.57 billion.

Reconciliation of the allowance for probable losses on NCAHFS is as follows:

	2015	2014
Balance at beginning of year	₱ 2,362,961,392	₱ 1,820,149,054
Provisions during the year	(2,307,507,523)	542,812,338
Balance at end of year	**₱ 55,453,869**	**₱ 2,362,961,392**

8. INVESTMENT PROPERTIES

This account includes the following:

	2015	2014
Assets acquired from banks	₱ 3,053,512,295	₱ 429,693,620
Allowance for probable losses	(1,677,887,985)	(106,686,639)
	₱ 1,375,624,310	**₱ 323,006,981**

These represent real and other properties acquired from financially assisted banks and assets received from closed banks in payment for subrogated deposits and advances for receivership and liquidation expenses. The account increased mainly due to the reclassification of ₱2.63 billion acquired assets from non-current assets held for sale with corresponding allowance of ₱1.57 billion.

Reconciliation of the allowance for probable losses on investment properties is as follows:

	2015	2014
Balance at beginning of year	₱ 106,686,639	₱ 0
Provisions during the year	1,571,201,346	106,686,639
Balance at end of year	**₱ 1,677,887,985**	**₱ 106,686,639**

9. PROPERTY AND EQUIPMENT

This account includes the following:

2015					
Particulars	**Land and Building**	**Furniture, Fixtures, Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Cost					
At 1 January 2015	₱ 171,523,100	₱ 154,483,893	₱ 30,155,559	₱ 63,093	₱ 356,225,645
Additions	0	30,630,006	0	196,920	30,826,926
Disposals/adj./amortizations	0	(31,129,957)	0	(29,120)	(31,159,077)
At 31 December 2015	**171,523,100**	**153,983,942**	**30,155,559**	**230,893**	**355,893,494**
Accumulated Depreciation					
At 1 January 2015	103,107,743	105,007,429	18,285,086	0	226,400,258
Additions	3,472,400	12,311,340	2,959,915	0	18,743,655
Disposals/adj./amortizations		(24,938,710)	0	0	(24,938,710)
At 31 December 2015	**106,580,143**	**92,380,059**	**21,245,001**	**0**	**220,205,203**
Net Book Value					
At 31 December 2015	**₱ 64,942,957**	**₱ 61,603,883**	**₱ 8,910,558**	**₱ 230,893**	**₱ 135,688,291**

2014					
Particulars	**Land and Building**	**Furniture, Fixtures, Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Cost					
At 1 January 2014	₱ 171,523,100	₱ 150,857,540	₱ 31,218,559	₱ 128,175	₱ 353,727,374
Additions	0	7,199,914	0	72,800	7,272,714
Disposals/adj./amortizations	0	(3,573,561)	(1,063,000)	(137,882)	(4,774,443)
At 31 December 2014	**171,523,100**	**154,483,893**	**30,155,559**	**63,093**	**356,225,645**
Accumulated Depreciation					
At 1 January 2014	99,635,340	95,429,251	15,861,475	0	210,926,066
Additions	3,472,403	12,716,623	3,393,050	0	19,582,076
Disposals/adj./amortizations	0	(3,138,445)	(969,439)	0	(4,107,884)
At 31 December 2014	**103,107,743**	**105,007,429**	**18,285,086**	**0**	**226,400,258**
Net Book Value					
At 31 December 2014	**₱ 68,415,357**	**₱ 49,476,464**	**₱ 11,870,473**	**₱ 63,093**	**₱ 129,825,387**

This account includes property located at Chino Roces Avenue, Makati City, with appraised value of ₱350 million for the land and ₱99.520 million for the building.

10. INTANGIBLE ASSETS

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

Particulars		Cost		Accumulated Amortization		Net Book Value
At 1 January 2015	₱	108,069,776	₱	64,338,217	₱	43,731,559
Additions/Adjustments		12,813,396		0		12,813,396
Amortization		0		16,660,568		(16,660,568)
At 31 December 2015	**₱**	**120,883,172**	**₱**	**80,998,785**	**₱**	**39,884,387**
At 1 January 2014		101,818,297		48,883,449		52,934,848
Additions/Adjustments		6,251,479		0		6,251,479
Amortization		0		15,454,768		(15,454,768)
At 31 December 2014	**₱**	**108,069,776**	**₱**	**64,338,217**	**₱**	**43,731,559**

11. OTHER ASSETS

This account includes the following:

		2015		**2014**
Creditable tax withheld	₱	884,034,710	₱	884,034,710
Legal liability insurance trust fund		263,947,062		249,567,194
Provident fund – car fund		64,391,528		64,391,528
Prepayments		57,266,244		32,903,136
Guarantee deposits		20,403,478		19,140,998
Deferred input VAT		5,791,400		5,636,487
Inventories		1,557,587		1,868,881
Advances to officers and employees		1,160,063		1,147,468
Petty cash fund		1,039,324		1,235,860
Others (resigned employees, etc.)		2,484,861		1,747,080
	₱	**1,302,076,257**	**₱**	**1,261,673,342**

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

Legal liability insurance trust fund represents funds held in trust with LBP to finance legal expenses for possible cases against employees and directors of the Corporation in the performance of their duties.

Provident fund – car fund represents receivables from the PDIC Provident Fund for advances by the Corporation for the car plan of officers.

Prepayments include various prepaid expenses i.e. fidelity bond premiums, insurance, membership dues, repair and maintenance services and subscriptions.

Guarantee deposits Include miscellaneous assets such as subscriber's investments and deposits with utility companies (SSS, MERALCO, PLDT, etc.).

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account includes the following:

	2015	2014
Inter-agency payables	₱ 2,362,579,429	₱ 2,210,696,644
Due to officers and employees	239,523,248	192,882,824
Accounts payables	66,624,857	72,061,715
Other payables	25,162,909	21,655,802
	₱ 2,693,890,443	**₱ 2,497,296,985**

Inter-agency payables consist of payables to the following:

	2015	2014
National Government/Bureau of Treasury	₱ 2,306,792,175	₱ 2,130,957,559
Bureau of Internal Revenue	22,241,028	47,691,185
PDIC Provident Fund	21,831,252	20,941,053
Government Service Insurance System	10,207,209	9,617,893
PhilHealth	1,149,104	1,140,335
Pag-IBIG	358,661	348,619
	₱ 2,362,579,429	**₱ 2,210,696,644**

Due to officers and employees is composed of accrued leaves 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.

Accounts payables refer to the amount due to various suppliers/creditors.

Other payables include bidders' performance bond payable, payables to resigned employees, overpayment by banks, which are creditable to subsequent assessment period, and unearned income from acquired assets sold through sales contract receivables.

13. INSURED DEPOSIT CLAIMS PAYABLE

This account represents balance of unpaid but validated insured deposit claims totaling ₱344.215 million and ₱574.298 million as at December 31, 2015 and 2014, respectively.

14. LOANS AND INTEREST PAYABLE

This account represents outstanding loans payable to the Bangko Sentral ng Pilipinas which were utilized, in accordance with Section 18 of Republic Act No. 3591 to fund financial assistance to operating banks and claims for insured deposits, as follows:

	2015	2014
Commercial Banks	₱ 55,846,418,769	₱ 52,928,737,115
Thrift Banks	2,651,276,896	2,645,730,956
Rural Banks	2,982,770,440	3,036,598,578
	₱ 61,480,466,105	**₱ 58,611,066,649**

The above balances do not include the amount of principal and interest of ₱1.44 billion and ₱1.63 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, 2015, the case is still pending with the DOJ.

15. MATURITY PROFILE OF ASSETS AND LIABILITIES

The table below is an analysis of assets and liabilities showing the expected dates when assets will be realized into cash as well as expected settlement dates of liabilities.

Particulars	2015 Less than 12 months	2015 Over 12 months	2014 Less than 12 months	2014 Over 12 months
ASSETS				
Cash and cash equivalents	₱ 500,135,671	₱ 0	₱ 2,156,756,822	₱ 0
Investments at amortized costs	6,817,775,157	158,586,662,148	6,651,188,038	137,696,667,078
Loans and receivables	16,017,187	8,198,604,755	49,797,392	8,407,208,894
Financial assets at fair value through other comprehensive income	0	37,804,600	0	3,679,804,600
Non-current assets held for sale	220,080,577	0	1,386,255,846	0
Investment properties	0	1,375,624,310	0	323,006,981
Property and equipment	0	135,688,291	0	129,825,387
Intagible assets	0	39,884,387	0	43,731,559
Other assets	1,217,281,249	84,795,008	1,178,140,815	83,532,527
Total Assets	**₱ 8,771,289,841**	**₱ 168,459,063,499**	**₱ 11,422,138,913**	**₱ 150,363,777,026**

LIABILITIES								
Accounts payable and other liabilities	₱	2,693,890,443	₱	0	₱	2,497,296,985	₱	0
Insured deposit claims payable		344,214,708		0		574,297,836		0
Loans and interest payable		1,588,382,858		59,892,083,247		1,784,303,982		56,826,762,667
Total Liabilities		**4,626,488,009**		**59,892,083,247**		**4,855,898,803**		**56,826,762,667**
NET	₱	**4,144,801,832**	₱	**108,566,980,252**	₱	**6,566,240,110**	₱	**93,537,014,359**

16. ASSESSMENT INCOME

This consists of assessment premiums received as follows:

	2015	2014
First semester	₱ 8,265,848,416	₱ 7,257,181,445
Second semester	8,544,421,677	7,818,986,400
	₱ 16,810,270,093	**₱ 15,076,167,845**

17. INCOME FROM INVESTMENTS

This account includes the following:

	Note	2015	2014
Interest income from:			
Investment securities at amortized cost	4	₱ 6,940,610,690	₱ 6,118,208,999
Cash equivalents		49,419,969	4,758,287
Gain on sale of securities		29,616,705	24,369,625
		₱ 7,019,647,364	**₱ 6,147,336,911**

18. INCOME FROM FINANCIAL ASSISTANCE

The balance of this account refers to interest income totaling ₱172.911 million in 2015 and ₱282.175 million in 2014, derived from financial assistance to banks by way of interest bearing direct loans and acquisition of assets.

19. OTHER INCOME (LOSS)

This account includes the following:

	2015	2014
Service income	₱ 242,458,800	₱ 237,437,700
Recoveries	169,713,946	293,636,403
Gain on sale of assets	88,498,642	22,595,148
Rental income	78,599,659	20,492,674
Liquidating dividend	15,489,646	9,222,583
Dividend income	12,472,194	22,482,531
Gain (loss) on early extinguishment of debt	1,471,031	(914,231,871)
Income from sale of acquired assets	869,056	5,794,644
Interest on late payment of assessment	44,381	37,054
Gain (loss) on foreign currency revaluation	(16,731)	(44,232)
Day 1 gain (loss)	(1,177,553)	(29,524,042)
Miscellaneous income	28,943,549	40,456,772
	₱ 637,366,620	**₱ (291,644,636)**

20. INCOME FROM TAX SUBSIDY

No tax subsidy was charged in 2015 to the Tax Expenditure Fund since the charging has expired last May 31, 2014 as provided for in Section 17(c) of the PDIC Charter, as amended by Republic Act No. 9576. A total of ₱3.093 billion tax obligations were booked to this account in 2014.

21. OPERATING EXPENSES

This account includes the following:

	2015	2014
Personnel services	₱ 1,100,823,267	₱ 1,001,024,270
Maintenance and other operating expenses	425,536,041	388,632,476
	₱ 1,526,359,308	**₱ 1,389,656,746**

The Gender and Development (GAD) expenses amounted to ₱249,967 and ₱239,790 in 2015 and 2014, respectively. These were incurred for GAD capacity-building programs, participation in GAD seminars, meetings/activities and GAD learning sessions/activities undertaken during the Women's Month celebration and the 18-Day Campaign to End Violence Against Women.

22. PROVISION FOR INSURANCE LOSSES

The provision for insurance losses is in accordance with Note 2.4 f.2. Total amount of ₱10.330 billion and ₱5.839 billion as at December 31, 2015 and 2014, respectively, were charged to income to ensure adequacy of reserves for insurance losses.

23. INSURANCE AND FINANCIAL ASSISTANCE LOSSES

This account includes the following:

	2015	2014
Bank rehabilitation cost	₱ 3,648,555,977	₱ 2,661,000,000
Deposit claims pay-out expenses	1,056,907,152	1,219,345,428
Receivership and liquidation expenses	248,481,093	1,899,980,516
	₱ 4,953,944,222	**₱ 5,780,325,944**

Bank rehabilitation cost represents the estimated losses on financial assistance to banks.

Deposit claims pay-out expenses represent payments made on insured deposit claims including those accrued during the year.

Receivership and liquidation expenses represent expenses incurred by the Corporation as receiver and liquidator of closed banks.

24. INTEREST ON BORROWINGS

This account consists of interest expense totaling ₱3.273 billion in 2015 and ₱3.209 billion in 2014 primarily on outstanding loans from BSP used to fund financial assistance and pay-out operations of various banks.

25. TAXES

No income tax was paid by the Corporation in 2015 due to its exemption from paying taxes except for value-added tax starting June 1, 2014 in accordance with Section 17 c of R.A. 9576 as implemented under Revenue Regulation No. 6-2010 dated June 29, 2010. PDIC charged income tax amounting to ₱734.321 million to the Tax Expenditure Fund up to June 1, 2014 (see Note 2.4.o).

PDIC has a pending Petition for Review with Motion for Suspension of Collection of Tax with the Court of Tax Appeals (CTA) docketed as CTA Case No. 9114. It seeks, among others, to set aside and annul several BIR issuances directing PDIC to pay interest and surcharge on VAT for taxable year 2009 in the total amount of ₱1,401,474,433 plus all increments incident to delinquency.

The CTA per Resolution promulgated on September 28, 2015 granted PDIC's Urgent Motion for Suspension of Collection of Tax. The CTA also allowed the suspension of collection of tax without the posting of a surety bond.

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 2015 and 2014:

	2015	2014
Withholding taxes:		
On compensation and benefits	₱ 165,859,968	₱ 160,213,184
Creditable withholding taxes	43,378,611	57,490,475
Final withholding taxes	223,493	288,412
Value added tax (VAT)	37,156,074	784,814,677
Income tax	0	500
BIR annual registration fee	500	734,321,078
Community tax certificate	0	10,500
Documentary stamp tax	0	534
	₱ 246,618,646	**₱ 1,737,139,360**

26. DIVIDENDS TO THE NATIONAL GOVERNMENT

The Corporation declared dividends to the National Government in 2015 and 2014 in the amounts of ₱2.278 billion and ₱2.130 billion, respectively, representing 50 per cent of annual net income.

27. LEASES

The Corporation leased the premises of the Social Security System at Ayala Avenue, Makati City, which serves as PDIC's principal office for ₱116.034 million and ₱109.088 million as at December 31, 2015 and 2014, respectively**.** The lease is renewable under certain terms and conditions.

28. CONTINGENT LIABILITIES AND OTHER MATTERS

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

<u>Claims for deposit insurance</u>

Fifty cases were filed against the Corporation for payment of deposit insurance in the estimated amount of ₱201.452 million. In addition, the Corporation initiated an action for interpleader against claimant/depositor involving the amount of ₱250,000.

<u>Cases subject matter of which are incapable of pecuniary estimation</u>

There are eight 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.

28.2 Estimated insured deposits

As at December 31, 2015, total insured deposits up to the ₱500,000 insurance coverage amounted to ₱2.07 trillion representing 50.95 million accounts. This is equivalent to 22.48 per cent of the total deposits of ₱9.22 trillion in the banking industry.

28.3 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 295 Closed Banks, banks under liquidation by PDIC as of December 31, 2015 stood at 352 closed banks, including the 14 banks closed in 2015. The total estimated realizable value of assets (ERVA) and liabilities of the 352 closed banks amounted to ₱36.61 billion and ₱141.16 billion, respectively in 2015. As of December 31, 2014 there were 378 closed banks with ERVA of ₱36.93 billion and liabilities of ₱140.58 billion based on their latest available financial statements.

29. RELATED PARTY TRANSACTION

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

30. 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 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 secondary source 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 loans and investments in equity securities, before and after taking into account collateral held or other credit:

		Maximum Exposure		Fair value of collateral or credit enhancement		Net Exposure
		2015				
Loans and receivables, net	₱	8,170,960,509	₱	1,422,028,751	₱	6,748,931,758
Financial aset at fair value through other comprehensive income, net		0		0		0
Total credit risk exposure	**₱**	**8,170,960,509**	**₱**	**1,422,028,751**	**₱**	**6,748,931,758**
		2014				
Loans and receivables, net	₱	8,250,289,245	₱	1,481,082,366	₱	6,769,206,879
Financial aset at fair value through other comprehensive income, net		3,642,000,000		0		3,642,000,000
Total credit risk exposure	**₱**	**11,892,289,245**	**₱**	**1,481,082,366**	**₱**	**10,411,206,879**

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, 2015.

		On demand		Up to 3 months		> 3 up to 12 months		> 1 up to 5 Years
As at December 31, 2015								
Accounts payable and other liabilities	₱	0	₱	2,693,890,443	₱	0	₱	0
Insured deposit claims payable		344,214,708		0		0		0
Loans and interest payable		1,585,433,181		2,949,677		0		52,323,688,737
	₱	**1,929,647,889**	₱	**2,696,840,120**	₱	**0**	₱	**52,323,688,737**
As at December 31, 2014								
Accounts payable and other liabilities	₱	0	₱	2,497,296,985	₱	0	₱	0
Insured deposit claims payable		574,297,836		0		0		0
Loans and interest payable		1,593,931,203		29,885,666		160,487,113		14,400,647,495
	₱	**2,168,229,039**	₱	**2,527,182,651**	₱	**160,487,113**	₱	**14,400,647,495**

		> 5 up to 10 years		> 10 up to 20 years		Over 20 years		Total
As at December 31, 2015								
Accounts payable and other liabilities	₱	0	₱	0	₱	0	₱	**2,693,890,443**
Insured deposit claims payable		0		0		0		**344,214,708**
Loans and interest payable		7,474,740,740		0		93,653,770		**61,480,466,105**
	₱	**7,474,740,740**	₱	**0**	₱	**93,653,770**	₱	**64,518,571,256**
As at December 31, 2014								
Accounts payable and other liabilities	₱	0	₱	0	₱	0	₱	**2,497,296,985**
Insured deposit claims payable		0		0		0		**574,297,836**
Loans and interest payable		42,265,300,666		72,706,676		88,107,830		**58,611,066,649**
	₱	**42,265,300,666**	₱	**72,706,676**	₱	**88,107,830**	₱	**61,682,661,470**

Capital Management

PDIC aims to maintain a Deposit Insurance Fund (DIF) to Estimated Insured Deposits (EID) ratio of at least five per cent which the Corporation's Board of Directors adopted as a measure of capital adequacy since 2012. The five per cent ratio was recommended by an external consultant engaged in 2012 under the World Bank /FIRST Initiative technical assistance on the Enhancement of Insurance Reserves Targeting (IRT) Framework.

A qualitative approach was used to establish the five per cent benchmark, using the following criteria: a) the fund should be sufficient to cover actual losses on failed banks for the worst two contiguous years, b) it should address failure of at least one large bank that, under ordinary market conditions would not be considered systemic and c) an additional margin of comfort can be obtained to cover unanticipated risks by providing sufficient funds to cover an additional year's failures and/or an additional commercial bank failure.

As of December 31, 2015, DIF stood at ₱ 112.71 billion while EID is estimated at ₱2.071 trillion resulting to a DIF/EID ratio of 5.4 per cent.