2013 AUDITED FINANCIAL STATEMENTS

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 Philippine Deposit Insurance Corporation which comprise the statement of financial position as at December 31, 2013, statement of income, statement of comprehensive income, statement of changes in deposit insurance fund, and statement of cash flows for the year 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 audit. We conducted our audit in accordance with International 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 is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The reliability of the Loans-Non-interest bearing notes amounting to P3.932 billion is doubtful due to the absence of transfer documents to substantiate or provide proof of existence/ownership of the assets purchased with book value of P3.841 billion under the Financial Assistance Agreement, contrary to Paragraph 31 of the Framework for the Preparation and Presentation of Financial Statements, and Section 4 (6) of Presidential Decree No. 1445.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Philippine Deposit Insurance Corporation as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

As discussed in Note 13 to the financial statements, the loans payable to Bangko Sentral ng Pilipinas (BSP) were revalued at amortized cost from historical cost in 2012 in accordance with the Corporation's early adoption of PFRS 9. However, the restated amount did not include the accrued interest claimed by BSP amounting to P1.439 billion since PDIC did not record it in its books of accounts due to unresolved issue on the interpretation of Section 1.02 of the Loan Agreement between BSP and PDIC. Under the loan agreement, an interest at the rate of two percent lower than the interest charges to the government obligations shall be paid by PDIC at the end of the following month after receipt of payment. PDIC stood firm on its stand that there should be no accrual of interest on said loan considering that the source of repayment was from collections of the underlying government loan accounts, hence it was not possible to ascertain beforehand interest that may be collected therefrom. Nevertheless, both parties agreed to elevate the matter to the Department of Justice for adjudication and resolution.

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

Our audit was 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 21 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 4, 2014

PHILIPPINE DEPOSIT INSURANCE CORPORATION

(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)

STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

(In Thousand Pesos)

	Note	2013	2012 (As restated)
ASSETS			
Cash and cash equivalents	3	3,002,307	2,146,154
Investment securities at amortized cost	4	123,493,575	108,792,500
Loans and receivables	5	20,361,539	35,557,665
Financial assets at fair value through other comprehensive income	6	6,303,000	6,303,000
Non-current assets held for sale	7	1,776,715	816,044
Property and equipment	8	142,801	146,453
Intangible assets	9	52,934	61,962
Other assets	10	835,267	601,386
TOTAL ASSETS		**155,968,138**	**154,425,164**
LIABILITIES AND DEPOSIT INSURANCE FUND			
Liabilities			
Accounts payable and other liabilities	11	1,705,037	3,074,331
Insured deposit claims payable	12	1,270,259	2,481,058
Loans and interest payable	13	62,762,203	63,132,740
		65,737,499	**68,688,129**
Deposit Insurance Fund			
Permanent insurance fund		3,000,000	3,000,000
Reserves for insurance losses		63,895,318	63,895,318
Retained earnings		23,335,321	18,841,717
		90,230,639	**85,737,035**
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND		**155,968,138**	**154,425,164**

The Notes on pages 8 to 16 form part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)
STATEMENT OF INCOME
For the year ended December 31, 2013
(In Thousand Pesos)

	Note	2013	2012 (As restated)
INCOME			
Assessments	15	11,617,806	10,480,010
Income from investments	16	5,417,994	5,859,129
Income from financial assistance	17	932,069	1,082,991
Other income/(loss)	19	319,226	(252,662)
		18,287,095	**17,169,468**
EXPENSES			
Operating expenses	20	1,330,339	1,462,668
Provision for insurance losses	22	0	3,600,036
Insurance and financial assistance losses	23	11,055,256	6,400,212
Interest on borrowings	24	3,493,705	3,387,867
		15,879,300	**14,850,783**
PROFIT BEFORE TAX		**2,407,795**	**2,318,685**
Income tax expense		242,297	2,191,817
PROFIT BEFORE TAX SUBSIDY		**2,165,498**	**126,868**
Income from tax subsidy	18	3,410,855	3,210,066
PROFIT		**5,576,353**	**3,336,934**

The Notes on pages 8 to 16 form part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION

(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2013

(In Thousand Pesos)

	2013	2012 (As restated)
PROFIT	**5,576,353**	**3,336,934**
TOTAL COMPREHENSIVE INCOME for the year	**5,576,353**	**3,336,934**

The Notes on pages 8 to 16 form part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION

(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)

STATEMENT OF CHANGES IN DEPOSIT INSURANCE FUND

For the year ended December 31, 2013

(In Thousand Pesos)

	Note	2013	2012 (As restated)
PERMANENT INSURANCE FUND			
Balance at beginning / end of year		**3,000,000**	**3,000,000**
RESERVES FOR ESTIMATED INSURANCE LOSSES			
Balance at beginning of year		63,895,318	60,295,282
Additions		0	3,600,036
Balance at end of year		**63,895,318**	**63,895,318**
RETAINED EARNINGS			
Balance at beginning of year		18,841,717	6,469,483
Effects of prior period adjustments	30	0	9,690,771
Balance at beginning of year, as restated		18,841,717	16,160,254
Net income after tax		5,576,353	3,336,934
Dividends to the national government		(1,082,749)	(655,471)
Balance at end of year		**23,335,321**	**18,841,717**
ACCUMULATED COMPREHENSIVE GAIN/(LOSS)			
Balance at beginning of year		0	5,908,801
Effects of adoption of PFRS 9	30	0	(5,908,801)
Balance at beginning of year, as restated		0	0
Other Comprehensive Income for the year		0	0
Balance at the end of the year		**0**	**0**
DEPOSIT INSURANCE FUND		**90,230,639**	**85,737,035**

The Notes on pages 8 to 16 form part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION

(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)

STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

(In Thousand Pesos)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Assessment collections		11,415,859	10,314,430
Income from investment		6,312,592	6,286,855
Collection of loans and assets acquired from banks		3,155,542	4,680,621
Collection of subrogated claims receivable		149,526	24,353
Income from financial assistance		77,889	41,447
Collection of banks under receivership & liquidation		44,139	35,952
Dividend, service and miscellaneous income		43,137	34,271
Extension of loan to banks		0	(1,287,822)
Payment of taxes / income tax deficiencies		(1,872)	(2,157)
Advances for receivership and liquidation operations		(9,705)	(21,662)
Payment of cash advances and various receivables		(33,269)	(83,265)
Collection / payments of various payables		(127,360)	(9,465)
Payment of interest on borrowings		(809,844)	(674,210)
Maintenance and other operating expenses		(1,176,156)	(1,260,996)
Payment of insured deposits		(3,373,557)	(6,376,607)
Net cash provided by operating activities		**15,666,921**	**11,701,745**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from matured investment		122,030,204	140,998,660
Cost of purchased property & equipment		(19,004)	(10,464)
Placement in various investment		(136,426,301)	(161,739,859)
Net cash used in investing activities		**(14,415,101)**	**(20,751,663)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Collection of NG Share on Insured Deposit Payments		1,884,164	0
Final Withholding Tax charged to Tax Expenditure Fund		1,429,941	1,515,003
Borrowings from BSP/LBP		0	15,862
Payment of dividends to National Govt.		(655,471)	(504,709)
Payment of loans to BSP/LBP		(3,054,372)	(1,502,749)
Net cash used in financing activities		**(395,738)**	**(476,593)**
Effect of Foreign Currency Revaluation		71	(153)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**856,153**	**(9,526,664)**
CASH AND CASH EQUIVALENTS, BEGINNING		2,146,154	11,672,818
CASH AND CASH EQUIVALENTS	3	**3,002,307**	**2,146,154**

The Notes on pages 8 to 16 form part of these financial statements.

PHILIPPINE DEPOSIT INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(All amounts in thousand pesos unless otherwise stated)

1. GENERAL INFORMATION

The Philippine Deposit Insurance Corporation (PDIC) is a government corporation established with the passage of Republic Act No. 3591, as amended, on June 22, 1963. 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, 2013, PDIC's total manpower complement is 592 (185 officers and 407 rank and file employees), of which, one is a Presidential appointee, 578 are permanent, 12 are coterminous and 1 is temporary.

The financial statements were authorized for issuance by the Board of Directors on February 19, 2014.

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

The Corporation did an early adoption of PFRS No. 9 wherein the financial assets and liabilities have been revalued and reclassified, as applicable to reflect the Corporation's business model and cash flow intention.

The financial statements are presented in Philippine Peso and all values are rounded to the nearest thousand 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 the 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 as Investments at Amortized Cost. This classification requires significant judgment. In making this judgment, the Corporation evaluates 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, then it will be required to reassess its business model.

b. Impairment losses of loans and receivables from banks

The Corporation reviews its loans and receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of income, the Corporation makes judgments as to whether there is any observable development and information indicating that there is a measurable decrease in the estimated future cash flows from the loans and receivables. The Corporation is guided by the provisions on the Guidelines on Allowance for Losses and Write-off of Assets approved under Board Resolution No. 2013-09-188, which provides conditions of assets that will be subject to impairment losses.

c. Impairment of subrogated claims receivable/accounts receivable- receivership and liquidation

The Subrogated Claims Receivable (SCR) account represents payments made by PDIC on deposit claims to insured depositors of closed banks. In accordance with the Guidelines on Allowance for Losses and Write-off of Assets, the allowance for losses is set at 100 per cent owing to the insolvent status of closed banks, and similar to the rate being provided to loans classified as loss.

On the other hand, the Accounts Receivable – Receivership and Liquidation account consists of expenses incurred by the Corporation for its receivership and liquidation functions charged against closed banks. This account is periodically reviewed to determine whether an impairment loss should be recorded based on the probability of non-recovery of such exposure. The allowance for losses is computed as the difference between the Estimated Realizable Value of Assets available for payment of PDIC's claims and the recorded receivables from closed banks.

d. Estimated useful lives of property and equipment

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

e. Contingencies

There are pending cases where the Corporation is impleaded as party defendant. The estimate of possible adverse judgments of these cases is based on the assessment of the strength of the defense of the Corporation or advisability of a compromise. The Corporation is of the opinion that these legal cases will not have a material adverse effect on its financial position. It is possible however, that there may be material changes in the estimates based on developments or events in the future.

2.3 Changes in accounting policies and disclosures

The Accounting policies adopted are consistent with those used in the previous financial year except for the change in the methodology of determining impairment loss on SCR as provided for in 2.2c, and the change in the valuation of Investments, Loans Receivable and Payable as prescribed under PFRS 9.

2.3.1 New and amended standards and interpretations

The following new standards, amendments and interpretations to existing PFRS which became effective for accounting period beginning on or after January 1, 2013, did not have a significant impact on the accounting policies, financial condition or performance of the Corporation.

- PFRS 13, Fair Value Measurement (effective January 1, 2013)

  PFRS 13 establishes a single set of principles on how to determine fair value of financial and non-financial assets and liabilities. PFRS 13 does not change when an entity is required to use fair value but rather provides guidance on how to measure under PFRS when fair value is required or permitted. PFRS 13 requires new disclosures on valuation techniques and inputs used to determine fair values and the effect of certain inputs on fair value measurement. This new standard has no significant impact on the Corporation's financial statements as the current fair value measurement of its non-financial assets and liabilities is already consistent with the new standard.

- PFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective January 1, 2013)

  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral arrangements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set-off in accordance with PAS 32. The amendments require disclosing, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendments have no impact on the Corporation's financial statements as there are no transactions which required offsetting of financial assets and liabilities.

2.3.2 Issued PFRS but are not yet effective

Accounting standards issued but not yet effective up to date of issuance of the Corporation's financial statements are listed below. The listing consists of accounting standards and interpretations issued, which the Corporation reasonably expects to be applicable at a future date. The Corporation intends to adopt these standards when they become effective, except as otherwise indicated.

PAS 32, Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities (effective January 1, 2014)

These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have no significant impact on the Corporation's financial statements since there are no present transactions involving netting of financial assets and financial liabilities.

- PFRS 9 (Amendment), Financial Instruments: Classification and Measurement (effective date has been reset after January 1, 2015)

  PFRS 9 replaces the parts of PAS 39 that relate to the classification, measurement and recognition of financial instruments. The amendments to PFRS 9 defer the mandatory effective date. The final effective date will be determined when the classification and measurement and impairment chapters of PFRS 9 are finalized. The deferral will make it possible for all phases of the project to have the same mandatory effective date, however early application of PFRS 9 is still permitted.

  The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying PFRS 9, which was originally only available to companies that chose to apply PFRS 9 prior to 2012. Instead, additional transition disclosures will now be required to help investors understand the effect that the initial application of PFRS 9 has on the classification and measurement of financial instruments.

  Classification of financial assets is determined at the "initial application date" and applying amortized cost or fair value measurement from the date of "initial recognition". The standard requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The classification depends on the entity's business model for managing its financial instruments and the cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates accounting mismatch. The Corporation did early adoption of PFRS 9 in the 2013 financial reporting. The adoption of the first phase of PFRS 9 has created an impact on the classification, measurement and presentation of the Corporation's financial assets and liabilities.

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.

Classification of 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.

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 included under this category include Cash and Cash Equivalents, Investments at Amortized Cost and Loans and Receivables.

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.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of the portfolio of identified financial instruments that the Corporation manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

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.

Impairment of 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.

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. These are booked at cost with periodic valuation for impairment and are being held for sale.

c. 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 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
Books	10 years
Transportation Equipment	7 years
Information Technology (Integral Part) and Computer	5 years
Furniture, Fixtures and Equipment	3 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.

d. 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.

e. Financial Liabilities and Equity Instrument

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.

e.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 FVPTL, 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 and loss.

e.2 Equity Instrument

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 deposit insurance fund as equity since it represents residual interests in the assets of the Corporation after deduction all of its liabilities.

e.2.1 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.

Since 2012, the Corporation has set the target level of DIF as a percentage of DIF to the estimated insured deposits (EID) of the banking industry or at 5%. Alongside, the PDIC monitors the ratio of DIF to the insurance reserve target based on risk assessment of insured banks.

e.2.2 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 P3 billion was reached in 1994 with the conversion of the obligations of PDIC to the then Central Bank of the Philippines in the amount of P977.787 million into equity of the National Government.

e.2.3 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.

f. 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:

f.1. 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 P5,000 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.

f.2. Investment income

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

f.3. Income from financial assistance

In accordance with the early adoption of PFRS 9, interest on loans receivables on account of financial assistance is recognized applying the effective interest using the market rates at initial recognition.

f.4 Income from tax subsidy

Tax obligations paid through the Tax Expenditure Fund in accordance with Section 17c of Republic Act (R.A.) No. 3591, as amended by R.A. No. 9576, are booked as income. This shall be for a period of five years starting June 1, 2009 and on June 1, 2014 (6th year) and thereafter, the Corporation shall be exempt from income tax, final withholding tax, value-added tax on assessments collected from member banks and local taxes.

g. 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.

h. Employee benefits

h.1. Provident fund

In accordance with Section 8 (11) of the Charter, the Corporation has a Provident Fund, which is a defined contribution plan, divided into general fund and housing fund, 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.

h.2. Retirement

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

h.3. 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.

i. 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 operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

j. 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 payout 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.

3. CASH AND CASH EQUIVALENTS

This account includes the following:

	2013	2012
Cash on hand [3.1/]	2,496	6,754
Cash in bank [3.2/]	123,028	190,946
Short-term investments [3.3/]	2,876,783	1,948,454
	3,002,307	**2,146,154**

3.1 The balance includes checks and other cash items received after the close of banking hours on the last business day of the month/year.

3.2 The account consists of the balances of bank accounts for operating funds, payout funds, collections, emergency drawing and BSP current account.

3.3 The account refers to 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:

	2013	2012 (As restated)
Corporate investments [4.1/]	91,090,331	77,790,057
Sinking funds [4.2/]	32,157,708	30,767,304
Legal liability insurance fund [4.3/]	245,536	235,139
	123,493,575	**108,792,500**

In accordance with PFRS 9, investment balances were revalued from market price to amortized cost to conform to the business model adopted by the Corporation 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).

4.1 This consists of special savings and time deposits, treasury bills, notes and bonds.

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

4.3 Funds being accumulated by the Corporation starting 2006, to reach P200 million 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.

5. LOANS AND RECEIVABLES

The following receivables are classified to this account as follows:

	2013	2012 (As restated)
Loans [5.1/]	8,648,842	13,019,634
Receivables - closed banks [5.2/]	8,762,221	16,713,266
Due from National Government [5.4/]	2,946,953	4,676,504
Interest receivables [5.3/]	2,100	1,121,897
Other receivables [5.5/]	1,423	26,364
	20,361,539	**35,557,665**

5.1 Loans

This represents loans in the form of i) interest and non-interest bearing loans to four rural banks and two commercial banks, amounting to P8.382 billion, ii) loans acquired from operating and closed banks amounting to P243.756 million (net of allowance), and iii) sales contract receivable from acquired assets amounting to P22.554 million.

The P8.382 billion interest and non-interest bearing loans include the P3.932 billion financial assistance granted to a universal bank and a sequestered bank pursuant to Section 17 (d) of the amended PDIC Charter. As of December 31, 2013, a total of P1.208 billion worth of assets has been accepted by the PDIC Board. Subsequently, the PDIC Board approved the acceptance of additional P1.996 billion worth of assets bringing the total to P3.204 billion as of May 31, 2014. Delivery of transfer documents is ongoing.

5.2 Receivables - closed banks include the following:

	2013	2012 (As restated)
Subrogated claims receivable [a/]	58,207,189	57,604,949
Subrogated claims receivable -assigned [a.1/]	(4,831,118)	(4,676,504)
Allowance for doubtful accounts	(53,376,071)	(44,791,818)
	0	**8,136,627**
AR-receivership and liquidation [b/]	1,759,440	1,567,122
Allowance for doubtful accounts	(27,063)	(20,327)
	1,732,377	**(1,546,795)**
Loans receivables-closed banks [c/]	9,171,396	9,171,396
Allowance for doubtful accounts	(2,141,552)	(2,141,552)
	7,029,844	7,029,844
	8,762,221	**16,713,266**

a. Subrogated claims receivable (SCR)

Subrogated claims receivable arises from payment of the insured deposits of any depositor 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.

a.1 The Subrogated claims receivable - assigned account totaling P4.831 billion represents insured deposits paid in excess of the first P250,000 for each depositor which is for the account of the National Government in accordance with Section 4 of Republic Act No. 9576.

b. Accounts receivable – receivership and liquidation (ARRL)

These are the expenses advanced by the Corporation in carrying out its mandate as receiver and liquidator of closed banks.

c. Loans receivables – closed banks (LRCB)

This represents financial assistance by way of non-interest bearing loans and liquidity assistance to banks that subsequently closed.

5.2.1 Allowance for doubtful accounts

Reconciliation of the allowance for doubtful accounts is as follows:

	2013			2012		
	SCR	ARRL	LRCB	SCR	ARRL	LRCB
Balance at beginning of year	44,791,818	20,327	2,141,552	40,396,173	17,129	139,902
Provisions during the year	8,584,253	6,736	0	4,395,645	3,198	2,001,650
Balance at end of year	**53,376,071**	**27,063**	**2,141,552**	**44,791,818**	**20,327**	**2,141,552**

5.3 Interest receivables

This represents interest receivables from investments amounting to P2.100 million in 2013. For 2012, this represents interest receivables from investments amounting P1.098 billion and from loans granted to assisted banks of P23.704 million.

Accrual of interest on one bank with financial assistance was stopped in view of its closure on April 27, 2012. Interest receivable that was not accrued/booked on the principal amount of P7 billion and P2 billion at the interest rate of 1 per cent and 5 per cent, respectively, amounted to P296.861 million as of December 31, 2013. The interest of P124.639 million on the P7 billion loan will be paid from the Government Securities pledged and held in trust by the bank for PDIC.

5.4 Due from National Government

This represents the balance of the share of the National Government (NG) in insured deposits paid in excess of P250 thousand (refer to 5.2. a.1). To date, the PDIC has filed reimbursement of P4.843 billion for banks closed from June 1, 2009 to May 31, 2012. The NG has made reimbursements to PDIC in the amount of P1.884 billion as of December 31, 2013.

5.5 Other receivables

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

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This account consists of:

	2013	2012 (As restated)
Equity Securities	6,303,000	6,303,000

This represents PDIC's subscription on March 31, 2009 to the Capital Notes issued by United Coconut Planters Bank (UCPB) in the amount of P12 billion by way of conversion of the latter's outstanding obligations to PDIC for the 2003 Financial Assistance. The Capital Notes have features consistent with BSP Circular No. 595-2008 on "Interim Tier I Capital for Banks Under Rehabilitation" and 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. The amount includes impairment loss amounting P5.697 billion.

7. NON-CURRENT ASSETS HELD FOR SALE

This account includes the following:

	2013	2012 (As restated)
Assets acquired from operating banks [7.1/]	3,244,043	2,814,128
Allowance for probable losses	(1,809,102)	(2,245,980)
	1,434,941	568,148
Assets acquired from closed banks [7.2/]	352,821	258,943
Allowance for probable losses	(11,047)	(11,047)
	341,774	247,896
Total	**1,776,715**	**816,044**

The non-current assets held for sale account was used and presented as a separate line in the financial statements starting year 2013.

7.1 Includes assets acquired from financially assisted banks and are being held for sale.

7.2 Includes assets received from closed banks in payment for subrogated deposits and advances for receivership and liquidation expenses.

8. PROPERTY AND EQUIPMENT

This account includes the following:

Particulars	Land and Builing [8.1/]	Furniture, Fixtures, Equipment and Books	Transportation Equipment [8.2/]	Leasehold Improvements	Total
Cost					
At 1 January 2013	171,523	156,720	22,454	60,064	410,761
Additions	0	10,059	8,764	0	18,823
Disposals/adjustments	0	(15,921)	0	0	(15,921)
At 31 December 2013	**171,523**	**150,858**	**31,218**	**60,064**	**413,663**
Accumulated Depreciation					
At 1 January 2013	98,162	95,868	13,111	59,167	264,308
Depreciation	3,473	13,389	2,750	769	20,381
Disposals/adjustments	0	(13,827)	0	0	(13,827)
At 31 December 2013	99,635	95,430	15,861	59,936	270,862
Net book value					
At 31 December 2013	**71,888**	**55,428**	**15,357**	**128**	**142,801**
At 31 December 2012, (As restated)	**75,361**	**60,852**	**9,343**	**897**	**146,453**

8.1 This account includes property located at Chino Roces Avenue, Makati City, with appraised values of P325 million for the land and P103.080 million for the building.

8.2 The account includes additional six vehicle units for the year or a total of 31 vehicle units.

9. INTANGIBLE ASSETS

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

Particulars	Cost	Accumulated Amortization	Net Book Value
At 1 January 2013	98,120	36,158	61,962
Additions	3,698	0	3,698
Amortization	0	12,726	(12,726)
At 31 December 2013	**101,818**	**48,884**	**52,934**
At 31 December 2012	**98,120**	**36,158**	**61,962**

10. OTHER ASSETS

This account includes the following:

	2013	2012 (As restated)
Creditable tax withheld	744,646	509,718
Provident fund - car fund	64,392	64,392
Guarantee deposits [10.1/]	18,988	17,380
Prepayments [10.2/]	2,871	2,120
Inventories [10.3/]	1,711	4,488
Advances to officers and employees [10.4/]	1,080	881
Petty cash fund [10.5/]	1,022	866
Others-resigned employees	557	1,541
	835,267	**601,386**

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

10.2 Includes various prepaid expenses i.e. fidelity bond premiums, insurance and subscriptions.

10.3 This account consists of office supplies and materials, and decals and standees inventories.

10.4 These are cash advances of officers and staff mostly for travel assignments.

10.5 The account includes cash for petty operating expenses and emergency drawings for specific purposes.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account includes the following:

	2013	2012 (As restated)
Inter-agency payables [11.3/]	1,413,034	2,739,479
Due to officers and employees [11.1/]	174,702	197,003
Accounts payables [11.2/]	84,746	102,015
Others payables [11.4/]	32,555	35,834
	1,705,037	**3,074,331**

11.1 This is composed of accrued leaves of employees payable upon monetization, retirement or resignation amounting to P171.836 million, and unpaid salaries and benefits amounting to P2.866 million such as loyalty pay, overtime, performance incentive, rice benefit and tax refunds to be paid in the succeeding year.

11.2 This refers to the amount due to various suppliers/creditors.

11.3 Inter-agency payables consist of payables to the following:

	2013	2012 (As restated)
National Government/Bureau of Treasury	1,082,749	1,855,434
Bureau of Internal Revenue	299,900	854,391
PDIC Provident Fund	20,020	19,682
Government Service Insurance System	8,932	8,598
PhilHealth	1,131	1,071
Pag-IBIG	302	303
	1,413,034	**2,739,479**

11.4 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.

12. INSURED DEPOSIT CLAIMS PAYABLE

This account represents balance of unpaid but validated insured deposit claims totaling P1.270 billion for 2013 and P2.481 billion for 2012.

13. 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 banks and claims for insured deposits, as follows:

	2013	2012 (As restated)
Commercial Banks	57,158,620	56,220,443
Thrift Banks	2,646,721	3,951,123
Rural Banks	2,956,862	2,961,174
	62,762,203	**63,132,740**

In accordance with the Corporation's early adoption of PFRS 9, loans were revalued at amortized cost from historical cost in 2012. The restated balance in 2012 includes accrued interest on loans from the Bangko Sentral ng Pilipinas amounting to P181.564 million, which will be paid in accordance with the terms of the loan agreement (e.g. bullet, annual, etc.).

14. MATURITY PROFILE OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

Particulars	2013		2012 (As restated)	
	Less than 2 months	Over 12 months	Less than 12 months	Over 12 months
ASSETS				
Cash and cash equivalent	3,002,307	0	2,146,154	0
Investments at amortized costs	17,045,130	106,448,445	23,386,588	85,405,912
Loans and receivables	3,522	20,358,017	1,148,260	34,409,405
Financial assets at fair value through other comprehensive income	0	6,303,000	0	6,303,000
Non-current assets held for sale	1,776,715	0	0	816,044
Property and equipment	0	142,801	0	146,453
Intangible assets	0	52,934	0	61,962
Other assets	835,267	0	601,386	0
Total Assets	**22,662,941**	**133,305,197**	**27,282,388**	**127,142,776**
LIABILITIES				
Accounts payable and other liabilities	1,705,037	0	3,074,331	0
Insured deposit claims payable	1,270,259	0	2,481,058	0
Loans and interest payable	82,886	62,679,317	125,645	63,007,095
Total Liabilities	**3,058,182**	**62,679,317**	**5,681,034**	**63,007,095**
NET	**19,604,759**	**70,625,880**	**21,601,354**	**64,135,681**

15. ASSESSMENT INCOME

This consists of assessment premiums received as follows:

	2013	2012
First semester	5,514,872	5,235,157
Second semester	6,102,934	5,244,853
	11,617,806	**10,480,010**

16. INCOME FROM INVESTMENTS.

This consists of interest income from investments (net of tax) and gain/(loss) on sale of securities as follows:

	2013	2012 (As restated)
Investment securities at amortized costs	5,039,750	5,052,739
Gain on sale of securities	324,040	604,471
Cash equivalents [16.1]	54,204	201,919
	5,417,994	**5,859,129**

16.1 This account includes special savings deposits and time deposits having maturities of three months or less from the date of placement.

17. INCOME FROM FINANCIAL ASSISTANCE

The balance of this account refers to interest income totaling P932.069 million in 2013 and P1.083 billion (as restated) in 2012, derived from financial assistance to banks by way of interest bearing direct loans and acquisition of assets.

18. INCOME FROM TAX SUBSIDY

A total of P3.411 billion in 2013 and P3.210 billion (as restated) in 2012 tax obligations of PDIC were charged to the Tax Expenditure Fund in accordance with Section 17 (c) of the PDIC Charter, as amended by Republic Act No. 9576, were booked to this account.

19. OTHER INCOME/(LOSS)

Balance of this account consists of the following:

	2013	2012 (As restated)
Service income	227,874	214,009
Miscellaneous income	75,199	22,426
Dividend income	5,937	13,554
Gain on sale of disposed assets	5,904	2,010
Income from sale of acquired assets	4,307	0
Interest on late payment of assessment	332	82
Gain/(loss) on foreign currency revaluation	72	(154)
Day 1 Loss on loans receivables	(399)	(504,589)
	319,226	**(252,662)**

20. OPERATING EXPENSES

This account consists of the following:

	2013	2012 (As restated)
Personal services	952,341	1,057,584
Maintenance and other operating expenses	377,998	405,084
	1,330,339	**1,462,668**

The Gender and Development (GAD) expenses amounted to P147,963 in 2013. These were incurred for GAD Learning Sessions/activities during the Women's Month celebration and Walk to End Violence Against Women, GAD Orientation/Capacity Building and participation in GAD seminars for the Department of Finance GAD Focal Points System and establishment of baseline sex-disaggregated data on PDIC personnel.

21. TAXES

In compliance with the requirements set forth by the Bureau of Internal Revenue (BIR) in Revenue Regulation No. 15-2010, hereunder are the information on the 2013 taxes, duties and license fees paid or accrued in 2013:

	2013	2012 (As restated)
Value added tax (VAT) [21.1/]	1,543,607	1,339,165
Income tax	242,297	2,191,817
Capital Gains Tax	82	0
Documentary stamp tax	21	0
Withholding taxes		
On compensation and benefits	142,937	186,511
Creditable withholding taxes	29,671	28,238
Final withholding taxes	272	273
Other taxes and licenses		
Community tax certificate	10	10
BIR annual registration fee	1	1
	1,958,898	**3,746,015**

21.1 The Corporation received a preliminary assessment notice (PAN) dated December 29, 2010 and formal assessment notice (FAN) dated October 19, 2011 from the BIR, covering taxable year 2009 amounting to P815.039 million. The assessment pertains to interests and surcharges on late receipt by the BIR of payment documents (Special Allotment Release Order from the Department of Budget and Management) concerning basic income tax and VAT charged to the tax expenditure fund. PDIC in letters dated January 14, 2011 and October 19, 2011 protested and requested abatement of interest and surcharges on the said PAN and FAN, respectively. Per BIR letter dated November 25, 2011, PDIC informed that the application for abatement has been approved by the Regional Evaluation Board. However, the same was forwarded to the Technical Working Committee of the Office of the Deputy Commissioner for further evaluation and final approval.

22. PROVISION FOR INSURANCE LOSSES

For year 2013, no additional provision was charged to income. The charging of provision for insurance losses is in accordance with Note 2.4 e.2.3.

23. INSURANCE AND FINANCIAL ASSISTANCE LOSSES

Insurance and financial assistance losses consist of the following:

	2013	2012
Deposit claims pay-out expenses [23.1/]	9,854,508	4,395,645
Rehabilitation cost [23.2/]	1,194,013	2,001,369
Receivership and liquidation expenses [23.3/]	6,735	3,198
	11,055,256	**6,400,212**

23.1 Deposit claims pay-out expenses – estimated losses on deposit insurance claims paid and verified/validated claims accrued during the year.

23.2 Rehabilitation cost – estimated losses on financial assistance to banks.

23.3 Receivership and liquidation expenses – estimated losses on receivables from closed banks for necessary expenses advanced by the Corporation as receiver and liquidator.

24. INTEREST ON BORROWINGS

This account consists of interest expense totaling P3.494 billion in 2013 and P3.388 billion (as restated) in 2012 primarily on outstanding loans from BSP used to fund financial assistance and payout operations of various banks.

25. LEASES

The Corporation leased the premises of the Social Security System at Ayala Avenue, Makati City, which serve as PDIC's principal office for P107.165 million in 2013. The lease is renewable under certain terms and conditions.

26. CONTINGENT LIABILITIES AND OTHER MATTERS

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

a. Claims for deposit insurance

Forty three cases were filed against the Corporation for payment of deposit insurance in the estimated amount of P113.862 million. In addition, the Corporation initiated an action for interpleader against claimants/depositors involving the amount of P250,000.

b. Cases subject matter of which are incapable of pecuniary estimation

There are four cases where the Corporation was impleaded as a respondent or defendant, subject matter of which are 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.

26.2 Estimated insured deposits

As at September 30, 2013, total insured deposits within the P500,000 insurance coverage amounted to P1.663 trillion representing 43.96 million accounts. This is equivalent to 24.19 per cent of the total deposits of P6.872 trillion in the banking industry.

26.3 Banks under receivership and liquidation

There are a total of 456 closed banks, net of 163 banks with approved terminal report as of December 31, 2013 under PDIC receivership and liquidation. Of the 456, 18 banks were closed in 2013. The total estimated realizable value of assets and liabilities of the banks amounted to P36.709 billion and P142.374 billion, respectively, based on latest available financial statements.

27. RELATED PARTY TRANSACTION

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

28. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

The Corporation is exposed to a variety of financial risks such as market risk (including interest rate risk and currency 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.

28.1 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.

28.2 Credit risk

In view of its mandate to safeguard the interest of the depositing public and contribute in the promotion of stability in the economy, credit risk to the Corporation is the risk that the loans granted to operating banks needing financial assistance and advances in its receivership and liquidation activities 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.

Therefore, PDIC exercises prudence in the grant of financial assistance and over its exposures to credit risk. 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.

a. Maximum exposures to credit risk taking account of collateral

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:

	Gross Maximum Exposure	Fair value of collateral or credit enhancement	Net Exposure
		2013	
Loans and receivables	17,412,486	8,982,469	8,430,017
Financial asset at fair value through other comprehensive income	6,303,000	0	6,303,000
Total credit risk exposure	**23,715,486**	**8,982,469**	**14,733,017**
		2012 (As restated)	
Loans and receivables	29,782,968	12,035,483	17,747,485
Financial asset at fair value through other comprehensive income	6,303,000	0	6,303,000
Total credit risk exposure	**36,085,968**	**12,035,483**	**24,050,485**

28.3 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. The liquidity management policy of the Corporation is conservative in maintaining optimal liquid cash funds to secure a good capability to finance its mandated activities and other operational requirements. Due to the mandates of the Corporation, it is authorized to borrow from the BSP and from designated depository or fiscal agent of the Philippine Government for insurance and financial assistance purposes.

a. Analysis of financial liabilities by maturity

The table below summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2013.

	On demand	Up to 3 months	> 3 up to 12 months	> 1 up to 5 Years
As at December 31, 2013				
Accounts payable and other liabilities	0	1,705,037	0	0
Insured deposit claims payable	1,270,259	0	0	0
Loans and interest payable	82,886	0	0	0
	1,353,145	**1,705,037**	**0**	**0**

	On demand	Up to 3 months	> 3 up to 12 months	> 1 up to 5 Years
As at December 31, 2012, As Restated				
Accounts payable and other liabilities	0	3,074,331	0	0
Insured deposit claims payable	2,481,058	0	0	0
Loans and interest payable	77,974	0	47,671	0
	2,559,032	**3,074,331**	**47,671**	**0**

	> 5 up to 10 years	> 10 up to 20 years	Over 20 years	Total
As at December 31, 2013				
Accounts payable and other liabilities	0	0	0	1,705,037
Insured deposit claims payable	0	0	0	1,270,259
Loans and interest payable	1,652,769	11,494,188	49,532,360	62,762,203
	1,652,769	**11,494,188**	**49,532,360**	**65,737,499**
As at December 31, 2012, As restated				
Accounts payable and other liabilities	0	0	0	3,074,331
Insured deposit claims payable	0	0	0	2,481,058
Loans and interest payable	9,749,899	3,027,113	50,230,083	63,132,740
	9,749,899	**3,027,113**	**50,230,083**	**68,688,129**

29. CASH FLOW INFORMATION

Tax liabilities amounting to P3.411 billion and P3.210 billion for 2013 and 2012, respectively, were charged against the Tax Expenditure Fund (Note 18) are considered non-cash transactions.

30. RESTATEMENT OF 2012 FINANCIAL STATEMENTS AND EARLY ADOPTION OF PFRS No. 9

On 12 November 2009, the International Accounting Standards Board (IASB) published the first phase of International Financial Reporting Standards (IFRS) 9 on *Financial Instruments*, the accounting standard that will eventually replace International Accounting Standards (IAS) 39 on *Financial Instruments: Recognition and Measurement*. In March 2010, the Financial Reporting Standards Council (FRSC), the accounting standards setting body in the Philippines, adopted IFRS 9 as PFRS 9 to replace Philippine Accounting Standard (PAS) 39, on Financial Instruments: Recognition and Measurement. Adoption of PFRS 9 has been moved to 1 January 2015, but early application is encouraged.

Under PAS 39, the Corporation's Held to Maturity Investments (HTM) were tainted in 2011 in view of the disposal of securities amounting to P9.60 billion, considered more than an insignificant amount. To comply with the "tainting rule" of PAS 39, all of the Corporation's outstanding HTM investments recognized at amortized cost totaling P88.19 billion were reclassified as of December 31, 2011 to Available for Sale (AFS) with market price amounting to P94.10 billion. Analysis showed that early adoption of PFRS 9 for the year 2013 would address the valuation of the Corporations' financial instruments which have been tainted.

The 2013 financial statements included the effects of PDIC's early adoption of PFRS 9. As required in the standard, investment accounts have been revalued at amortized cost and reclassified, as applicable, to reflect the Corporation's business model and cash flow intention.

Balances and account titles of accounts affected by the early implementation as well as adjustments in 2013 pertaining to 2012 and prior years' transactions have been restated to present comparable balances.

The table below presents the January 1, 2012 condensed statement of financial position as previously reported, restatement adjustments and the restated balances:

	January 1, 2012				
STATEMENT OF FINANCIAL POSITION	As Previously Reported	Prior Year's Adjustments	Note	Effect of PFRS 9	Balance (As restated)
Assets:					
Cash and other assets	13,053,061				13,053,061
Investment securities at amortized cost	94,259,764		30.1/	(5,908,801)	88,350,963
Loans and receivables	41,432,774	(1,517,011)	30.2/		39,915,763
Financial asset at fair value through OCI	12,000,000	(5,697,000)	30.3/		6,303,000
Property and Equipment	158,949				158,949
Total Assets	**160,904,548**	**(7,214,011)**		**(5,908,801)**	**147,781,736**
Liabilities:					
Inter-agency payables	2,071,401				2,071,401
Various payables	4,244,810				4,244,810
Loans and interest payable	78,914,771	(16,904,782)	30.2/		62,009,989
Total Liabilities	**85,230,982**	**(16,904,782)**			**68,326,200**
Deposit Insurance Fund:					
Permanent insurance fund	3,000,000				3,000,000
Reserves for insurance losses	60,295,282				60,295,282
Retained earnings	6,469,483	9,690,771	30.4/		16,160,254
Unrealized gain on investments	5,908,801		30.1/	(5,908,801)	0
Total Deposit Insurance Fund	**75,673,566**	**9,690,771**		**(5,908,801)**	**79,455,536**
Total Liabilities and Deposit Insurance Fund	**160,904,548**	**(7,214,011)**		**(5,908,801)**	**147,781,736**

The following tables present the December 31, 2012 condensed statement of financial position and statement of income as previously reported, restatement adjustments and the restated balances

	December 31, 2012				
STATEMENT OF FINANCIAL POSITION	As Previously Reported	Prior Year's Adjustments	Note	Effect of PFRS 9	Balance (As restated)
Assets:					
Cash and other assets	3,644,563	(19,017)			3,625,546
Investment securities at amortized cost	14,598,894		30.1/	(5,806,394)	108,792,500
Loans and receivables	36,910,079	(1,352,414)	30.2/		35,557,665
Financial asset at fair value through OCI	12,000,000	(5,697,000)	30.3/		6,303,000
Property and Equipment	153,987	(7,534)	30.5/		146,453
Total Assets	**167,307,523**	**(7,075,965)**		**(5,806,394)**	**154,425,164**
Liabilities:					
Inter-agency payables	1,539,515	1,199,964	30.6/		2,739,479
Various payables	2,816,083	(173)			2,815,910
Loans and interest payable	78,715,229	(15,582,489)	30.2/		63,132,740
Total Liabilities	**83,070,827**	**(14,382,698)**		**0**	**68,688,129**
Deposit Insurance Fund:					
Permanent insurance fund	3,000,000				3,000,000
Reserves for Insurance losses	65,095,282	(1,199,964)	30.6/		63,895,318
Retained earnings	10,335,020	8,506,697	30.4/		18,841,717
Unrealized gain on investments	5,806,394		30.1/	(5,806,394)	0
Total Deposit Insurance Fund	**84,236,696**	**7,306,733**		**(5,806,394)**	**85,737,035**
Total Liabilities and Deposit Insurance Fund	**167,307,523**	**(7,075,965)**		**(5,806,394)**	**154,425,164**

STATEMENT OF INCOME	As Previously Reported	Restatements Add/(Deduct)	Note	Effect of PFRS 9	Balance (As restated)
Income:					
Assessment and income from investment	16,339,139				16,339,139
Income from financial assistance	428,552	654,439	30.2/		1,082,991
Other income/(loss)	254,015	(506,677)	30.2/		(252,662)
Total Income	**17,021,706**	**147,762**			**17,169,468**
Expenses:					
Operating expense	1,456,187	6,481			1,462,668
Provision for insurance losses	4,800,000	(1,199,964)	30.6/		3,600,036
Interest on borrowings	2,062,512	1,325,355	30.2/		3,387,867
Insurance and financial assistance losses	6,400,212				6,400,212
Total Expenses	**14,718,911**	**131,872**			**14,850,783**
Profit Before Tax	**2,302,795**	**15,890**			**2,318,685**
Less: Income tax expense	991,854	1,199,963	30.6/		2,191,817
Profit before Tax Subsidy	**1,310,941**	**(1,184,073)**			**126,868**
Add: Income from tax subsidy	3,210,066				3,210,066
PROFIT	**4,521,007**	**(1,184,073)**			**3,336,934**

30.1 This represents PFRS 9 adjustments on the revaluation to amortized cost of investments previously valued at market price.

30.2 This represents adjustments on revaluation to amortized cost of Loans Receivable and Payable previously valued at historical cost including Day 1 gain/(loss) and amortization of loans receivable and payable prior to 2012.

30.3 This represents adjustments due to recognition of P5.697 billion impairment loss on Capital Notes.

30.4 This represents adjustment for the recognition of impairment loss on Capital Notes and amortization of loans receivable and payables (Note 30.1 and 30.2).

30.5 This represents de-recognition in the books of P7.534 million in the Construction in Progress-Building account due to the Corporation's decision to discontinue construction of the PDIC building.

30.6 This represents income tax deficiency assessment for 2012 paid from Tax Subsidy in 2013. As a result of BIR audit on the Corporation's internal revenue tax liabilities for the taxable year 2012, PDIC was assessed for tax deficiency. Pursuant to Section 17 (c) of the PDIC Charter, Deposit Insurance Fund of the Corporation shall be preserved and maintained at all times, accordingly, all tax obligations of the Corporation for the period covered shall be chargeable to the Tax Expenditure Fund in the General Appropriation Act. In view thereof, said tax deficiency was charged against the 2013 Tax Subsidy budget and booked as adjustment to correct the 2012 financial statements.

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