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 statement of financial position as at December 31, 2014, 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 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 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matters

Loans payable to the Bangko Sentral ng Pilipinas (BSP), which were revalued at amortized cost from historical cost in 2012 in accordance with the Corporation's early adoption of PFRS 9 did not include the accrued interest claimed by BSP amounting to P1.439 billion. 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 dated November 21, 2002 between BSP and PDIC. Under the loan agreement, an interest at the rate of two per cent lower than the interest charged to the government obligations shall be paid by PDIC at the end of the following month after receipt of payment. PDIC maintains its stand that there should be no accrual of interest on said loan considering that pursuant to Section 1.05 of the Loan Agreement, the source of repayment was from collections of the underlying government loan accounts. Hence, it is not possible to ascertain beforehand the interest that may be collected therefrom. Nevertheless, the matter has been elevated to the Department of Justice (DOJ) for adjudication and resolution.

Moreover, the Corporation's remittance of dividends to the National Government (NG) covering the period from 2004 to 2014 was deficient by P18.652 billion because Reserves for insurance losses totaling P37.304 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 Dividend 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. COA contends that PDIC is covered by the provisions of R.A.No.7656 and accordingly, should recompute and declare dividends in accordance with the said law.

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 22 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 28, 2015

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 year ended December 31, 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

PHILIPPINE DEPOSIT INSURANCE CORPORATION

(KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK)

STATEMENT OF FINANCIAL POSITION

As at December 31, 2014

	Note	2014	2013 (As restated)
ASSETS			
Cash and cash equivalents	3	2,156,756,822	3,002,306,657
Investment securities at amortized cost	4	144,347,855,116	123,493,574,609
Loans and receivables	5	8,457,006,286	20,361,505,904
Financial assets at fair value through other comprehensive income	6	3,679,804,600	6,303,000,000
Non-current assets held for sale	7	1,386,255,846	1,776,714,879
Investment property	8	323,006,981	-
Property and equipment	9	129,825,387	142,801,308
Intangible assets	10	43,731,559	52,934,848
Other assets	11	1,261,673,342	836,366,157
TOTAL ASSETS		**161,785,915,939**	**155,969,204,362**
LIABILITIES AND DEPOSIT INSURANCE FUND			
Liabilities			
Accounts payable and other liabilities	12	2,497,296,985	2,896,596,516
Insured deposit claims payable	13	574,297,836	1,270,259,539
Loans and interest payable	14	58,611,066,649	62,762,203,012
		61,682,661,470	**66,929,059,067**
Deposit Insurance Fund			
Permanent insurance fund		3,000,000,000	3,000,000,000
Reserves for insurance losses		69,734,318,049	63,895,318,049
Retained earnings		27,368,936,420	22,144,827,246
		100,103,254,469	**89,040,145,295**
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND		**161,785,915,939**	**155,969,204,362**

The Notes on pages 9 to 34 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, 2014

	Note	2014	2013 (As restated)
INCOME			
Assessments	16	15,076,167,845	11,617,806,255
Income from investments	17	6,147,336,911	5,417,993,705
Income from financial assistance	18	282,175,179	931,685,321
Other income/(loss)	20	(291,644,636)	330,808,890
		21,214,035,299	**18,298,294,171**
EXPENSES			
Operating expenses	21	1,389,656,746	1,330,338,610
Provision for insurance losses	23	5,839,000,000	0
Insurance and financial assistance losses	24	5,780,325,944	11,056,105,436
Interest on borrowings	25	3,208,816,412	3,493,705,110
		16,217,799,102	**15,880,149,156**
PROFIT BEFORE TAX		**4,996,236,197**	**2,418,145,015**
Income tax expense		734,321,078	1,443,141,106
PROFIT BEFORE TAX SUBSIDY		**4,261,915,119**	**975,003,909**
Income from tax subsidy	19	3,093,151,615	3,410,855,070
PROFIT AFTER TAX SUBSIDY		**7,355,066,734**	**4,385,858,979**
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,355,066,734**	**4,385,858,979**

The Notes on pages 9 to 34 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, 2014

	Note	2014	2013 As restated
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		63,895,318,049	63,895,318,049
Additions/(deductions) for the year	23	5,839,000,000	-
Balance at end of year		**69,734,318,049**	**63,895,318,049**
RETAINED EARNINGS			
Balance at beginning of year, as previously reported		22,144,827,246	18,841,717,038
Profit after tax subsidy		7,355,066,734	4,385,858,979
Dividends to the National Government		(2,130,957,560)	(1,082,748,771)
Balance at end of year		**27,368,936,420**	**22,144,827,246**
DEPOSIT INSURANCE FUND		**100,103,254,469**	**89,040,145,295**

The Notes on pages 9 to 34 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, 2014

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of assessment premiums		14,937,745,420	11,415,858,594
Income from investment		7,065,944,979	6,312,592,080
Income from financial assistance		54,518,889	77,887,761
Collection of loans and assets acquired from banks		8,032,697,761	3,155,541,915
Collection from banks under receivership and liquidation		80,567,509	44,139,317
Collection of subrogated claims receivable		149,161,112	149,526,201
Dividend, service and miscellaneous income		68,713,554	43,137,143
Payment of various payables		(95,121,360)	(127,360,447)
Payment of insured deposits		(1,965,134,276)	(3,373,556,905)
Payment of interest on borrowings		(714,838,220)	(809,843,903)
Payment of maintenance and other operating expenses		(1,253,275,372)	(1,176,155,708)
Payment of taxes/income tax deficiencies		(56,854)	(1,871,886)
Payment of cash advances and various receivables		(14,613,851)	(33,269,425)
Advances for receivership and liquidation operations		(9,823,805)	(9,705,043)
Extension of loan to banks		(142,000,000)	0
Net cash provided by operating activities		**26,194,485,486**	**15,666,919,694**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from matured investment		89,453,950,940	122,030,204,306
Placement in various investment		(111,268,071,848)	(136,426,301,088)
Placement in LLIF funds managed by LBP Trust		(245,500,914)	-
Purchased property and equipment		(8,250,733)	(19,003,655)
Net cash used in investing activities		**(22,067,872,555)**	**(14,415,100,437)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings from BSP/LBP		179,804,600	-
Collection of National Government share on insured deposit payments		2,792,340,000	1,884,164,000
Final withholding tax charged to Tax Expenditure Fund		877,636,796	1,429,941,242
Payment of loans to BSP/LBP		(7,739,151,026)	(3,054,372,435)
Payment of dividends to National Government		(1,082,748,771)	(655,470,772)
Net cash used in financing activities		**(4,972,118,401)**	**(395,737,965)**
Effect of foreign currency revaluation		(44,365)	71,093
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(845,549,835)**	**856,152,385**
CASH AND CASH EQUIVALENTS, BEGINNING		3,002,306,657	2,146,154,272
CASH AND CASH EQUIVALENTS	3	**2,156,756,822**	**3,002,306,657**

The Notes on pages 9 to 34 form 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 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, 2014, PDIC's total manpower complement is 603 (186 officers and 417 rank and file employees), of which the position of the President is filled by appointment of the President of the Philippines while 595 are permanent and 7 are coterminous.

The financial statements were authorized for issuance by the Board of Directors on February 3, 2015.

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 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 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 Investment securities 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 comprehensive 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 (ARRL) account consists of expenses incurred by the Corporation for its receivership and liquidation functions charged against closed banks. In accordance with the amendment on the Guidelines on Allowance for Losses and Write-off of Assets, allowance is set at 100 per cent starting December 2014.

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 Guidelines on Allowance for Losses and Write-off of Assets as provided for in 2.2c.

2.3.1 <u>New and amended standards and interpretations</u>

The amendment and interpretation to the accounting standard below which became effective for accounting period beginning on or after January 1, 2014, was not adopted because it did not have an impact on the accounting policies, financial condition or performance of the Corporation.

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

  The objective of PAS 32 is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and liabilities. The standard clarifies the classification of a financial instrument issued by an entity, prescribes the accounting for treasury shares (an entity's own repurchased shares) and prescribes strict conditions under which assets and liabilities may be offset in the balance sheet.

The offsetting requirements in PAS 32 with new application guidance states that a financial liability shall be offset when, and only when, an entity currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. 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 amendment has no impact on the Corporation’s financial position or performance.

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.

- PFRS 15, Revenue from Contracts with Customers (effective January 1, 2017)

  PFRS 15 specifies how and when a PFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. PFRS 15 is issued in May 2014 and is mandatory for annual reporting periods starting from January 1, 2017 onwards. Earlier application is permitted.

  The standard applies to all contracts with customers except for leases within the scope of PAS 17 *Leases*; financial instruments and other contractual rights or obligations within the scope of PFRS 9 *Financial Instruments, PFRS 10 Consolidated Financial Statements*, PFRS 11 *Joint Arrangements*, PAS 27 *Separate Financial Statements* and PAS 28 *Investments in Associates and Joint Ventures*; insurance contracts within the scope of PFRS 4 *Insurance Contracts*; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

  A contract with a customer may be partially within the scope of PFRS 15 and partially within the scope of another standard. In that scenario if other standards specify how to separate and/or initially measure one or more parts of the contract, then those separation and measurement requirements are applied first. The transaction price is then reduced by the amounts that are initially measured under other standards; and if no other standard provides guidance on how to separate and/or initially measure one or more parts of the contract, then PFRS 15 will be applied.

  This standard will affect only the presentation and has therefore no impact on the Corporation’s financial position or performance.

- PFRS 9, Financial Instruments: Classification and Measurement (effective January 1, 2018)

  PFRS 9 replaces the parts of PAS 39 that relate to the classification, measurement and recognition of financial instruments. The first phase of PFRS 9, which addressed classification and measurement of financial assets was published in November 2009, and was subsequently amended in October 2010, to include classification and measurement requirements of financial liabilities and hedge accounting requirements. PFRS 9 (2013) does not yet have a mandatory effective date, but early adoption is allowed. The restatement of prior periods is not required. The mandatory effective date will be set upon completion of the impairment phase of the project. At its February 2014 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after January 1, 2018.

  The Corporation did an early adoption of the first phase of PFRS 9 for its 2013 financial reporting which affected the presentation and classification of accounts in the Corporation's financial position and performance.

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 under this category include Investments 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.

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. Investment property

The Corporation determines whether the acquired asset qualifies as investment property. In making its judgment, PDIC considers whether sale is highly probable within a one year period. 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
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.

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 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.

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 obligations 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.

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

f.2.1 Deposit insurance fund

The Deposit Insurance Fund (DIF) is the capital account of the Corporation and principally consists of the following: (a) the permanent insurance fund; (b) reserves for insurance losses; and (c) retained earnings. The DIF shall be maintained at a reasonable level to ensure capital adequacy.

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.

f.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.

f.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.

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.

g.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.

g.2. 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.

g.3. 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.

g.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 for a period of five years starting June 1, 2009 to May 31, 2014. Beginning June 1, 2014 and thereafter, the Corporation has been exempted from income tax, final withholding tax, value-added tax on assessments collected from member banks and local taxes.

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

i.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.

i.2. 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.

i.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.

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.

3. CASH AND CASH EQUIVALENTS

This account includes the following:

	2014	2013
Cash on hand [3.1/]	91,441	2,495,731
Cash in bank [3.2/]	102,400,850	123,027,375
Cash equivalents [3.3/]	2,054,264,531	2,876,783,551
	2,156,756,822	**3,002,306,657**

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, pay-out funds, collections, emergency drawing and BSP current account.

3.3 The account 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:

	2014	2013
Corporate investments [4.1/]	110,793,725,524	91,090,330,579
Sinking funds [4.2/]	33,546,838,290	32,157,707,631
Legal liability insurance fund (LLIF) [4.3/]	7,291,302	245,536,399
	144,347,855,116	**123,493,574,609**

In accordance with PFRS 9, investment balances are valued at amortized cost consistent with 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 This represents the 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 This refers to the remaining investments being managed by PDIC (pending maturity) 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. Upon maturity, these will be managed/held in trust by the Land Bank of the Philippines.

5. LOANS AND RECEIVABLES

The following receivables are classified to this account as follows:

	2014	2013 As Restated
Loans [5.1/]	1,239,663,520	8,648,842,043
Receivables - closed banks [5.2/]	7,009,843,881	8,762,190,372
Interest receivables [5.3/]	1,989,640	2,099,733
Due from National Government [5.4/]	204,727,401	2,946,953,511
Other receivables [5.5/]	781,844	1,420,245
	8,457,006,286	**20,361,505,904**

5.1 Loans

This represents loans in the form of i) interest bearing loans to five rural banks and one commercial bank and non-interest bearing loans to two commercial banks totaling P1.038 billion (net of allowance), and ii) loans acquired from operating and closed banks amounting to P202.02 million (net of allowance).

The non-interest bearing loans consists of P712.598 million 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, 2014, delivery of transfer documents for the remaining balance is ongoing.

5.2 Receivables - closed banks

This account includes the following:

	2014	2013 As Restated
Subrogated claims receivable [a/]	60,017,447,517	58,207,189,021
Subrogated claims receivable - assigned [a.1/]	(4,881,231,401)	(4,831,117,511)
Allowance for doubtful accounts	(55,136,216,116)	(53,376,071,510)
	0	0
Accounts receivable - receivership and liquidation [b/]	1,926,242,650	1,759,409,043
Allowance for doubtful accounts	(1,926,242,650)	(27,062,553)
	0	1,732,346,490
Loans receivables-closed banks [c/]	9,013,858,588	9,171,396,123
Allowance for doubtful accounts	(2,004,014,707)	(2,141,552,241)
	7,009,843,881	7,029,843,882
	7,009,843,881	**8,762,190,372**

a. <u>Subrogated claims receivable (SCR)</u>

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 P4.881 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. <u>Accounts receivable – receivership and liquidation (ARRL)</u>

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 four banks that subsequently closed.

5.2.1 Allowance for doubtful accounts

Reconciliation of the allowance for doubtful accounts is as follows:

	2014			2013		
	SCR	ARRL	LRCB	SCR	ARRL	LRCB
Balance at beginning of year	53,376,071,510	27,062,553	2,141,552,241	44,791,818,059	20,326,926	2,141,552,241
Provisions during the year/Adj.	1,760,144,606	1,899,180,097	(137,537,534)	8,584,253,451	6,735,627	0
Balance at end of year	**55,136,216,116**	**1,926,242,650**	**2,004,014,707**	**53,376,071,510**	**27,062,553**	**2,141,552,241**

5.3 Interest receivables

This represents interest receivables from investments amounting to P1.990 million in 2014 and P2.100 million in 2013.

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 P469.222 million as of December 31, 2014. The P7 billion loan and interest of P195.611 million will be paid from the Government Securities pledged.

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 P4.881 billion for banks closed from June 1, 2009 to May 31, 2012. The NG has made reimbursements to PDIC in the amount of P4.676 billion as of December 31, 2014.

5.5 Other receivables

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

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This account consists of:

	2014	2013
Capital Notes [6.1/]	3,642,000,000	6,303,000,000
Preferred Shares [6.2/]	37,804,600	0
	3,679,804,600	**6,303,000,000**

6.1 This represents PDIC's subscription on March 31, 2009 to the Capital Notes issued by a commercial bank in the amount of P12 billion by way of conversion of the latter's outstanding obligations to PDIC 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 is net of impairment loss amounting to P8.358 billion and P5.697 billion in 2014 and 2013, respectively.

6.2 This represents 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 as the equity component of the financial assistance granted to the bank. The preferred shares are non-voting, cumulative and convertible to common shares.

7. NON-CURRENT ASSETS HELD FOR SALE

This account includes the following:

	2014	2013 As Restated
Assets acquired from operating banks [7.1/]	3,706,051,777	3,244,044,167
Allowance for probable losses	(2,360,633,930)	(1,809,103,080)
	1,345,417,847	**1,434,941,087**
Assets acquired from closed banks [7.2/]	43,165,461	352,820,615
Allowance for probable losses	(2,327,462)	(11,046,823)
	40,837,999	**341,773,792**
	1,386,255,846	**1,776,714,879**

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. INVESTMENT PROPERTY

This account includes the following:

	2014	2013
From operating banks	182,246,603	0
From closed banks	247,447,017	0
Allowance for probable losses	(106,686,639)	0
	323,006,981	0

These represent real and other properties acquired from banks in payment of loans and receivables. They are being held for sale but sale within the next 12 months is not highly probable.

9. PROPERTY AND EQUIPMENT

This account includes the following:

Particulars	Land and Building [9.1]	Furniture, Fixtures, Equipment	Transportation Equipment [9.2]	Leasehold Improvements	Total
Cost					
At 1 January 2014	171,523,100	150,857,540	31,218,559	128,175	353,727,374
Additions	-	7,199,914	-	72,800	7,272,714
Disposals/adjustments	-	(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		210,926,066
Depreciation	3,472,403	12,716,623	3,393,050		19,582,076
Disposals/adjustments	-	(3,138,445)	(969,439)		(4,107,884)
At 31 December 2014	103,107,743	105,007,429	18,285,086	-	226,400,258
Net book value					
At 31 December 2014	**68,415,357**	**49,476,464**	**11,870,473**	**63,093**	**129,825,387**
At 31 December 2013	**71,887,760**	**55,428,289**	**15,357,084**	**128,175**	**142,801,308**

9.1 This account includes property located at Chino Roces Avenue, Makati City, with appraised values of P350 million for the land and P71.118 million for the building.

9.2 The account includes a total of 29 vehicle units.

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 2014	101,818,297	48,883,449	52,934,848
Additions/Adjustments	6,251,479		6,251,479
Amortization	0	15,454,768	(15,454,768)
At 31 December 2014	**108,069,776**	**64,338,217**	**43,731,559**
At 31 December 2013	**101,818,297**	**48,883,449**	**52,934,848**

11. OTHER ASSETS

This account includes the following:

	2014	2013 As Restated
Creditable tax withheld	884,034,710	744,659,931
LLIF Trust Fund [11.1/]	249,567,194	
Provident fund - car fund	64,391,528	64,391,528
Prepayments [11.2/]	32,903,136	2,870,716
Guarantee deposits [11.3/]	19,140,998	18,988,358
Deferred tax assets	5,636,487	
Inventories [11.4/]	1,868,881	1,710,520
Advances to officers and employees [11.5/]	1,147,468	1,080,336
Petty cash fund [11.6/]	1,235,860	1,021,887
Others-resigned employees	1,747,080	1,642,881
	1,261,673,342	**836,366,157**

11.1 Represents funds held in trust by LBP to finance legal expenses for possible cases against employees of the Corporation in the performance of their duties (see also Note 4.3)

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

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

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

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

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

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account includes the following:

	2014	2013 As Restated
Inter-agency payables [12.1/]	2,210,696,644	2,613,877,313
Due to officers and employees [12.2/]	192,882,824	174,492,514
Accounts payables [12.3/]	72,061,715	83,780,107
Other payables [12.4/]	21,655,802	24,446,582
	2,497,296,985	**2,896,596,516**

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

	2014	2013 As Restated
National Government/Bureau of Treasury	2,130,957,559	1,082,748,771
Bureau of Internal Revenue	47,691,185	1,500,743,302
PDIC Provident Fund	20,941,053	20,020,012
Government Service Insurance System	9,617,893	8,932,472
PhilHealth	1,140,335	1,131,135
Pag-IBIG	348,619	301,621
	2,210,696,644	**2,613,877,313**

12.2 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 P3.858 million such as loyalty pay, overtime, performance incentive, rice benefit and tax refunds to be paid in the succeeding year.

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

12.4 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.

13. INSURED DEPOSIT CLAIMS PAYABLE

This account represents balance of unpaid but validated insured deposit claims totaling P574,297,836 for 2014 and P1,270,259,539 for 2013.

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 banks and claims for insured deposits, as follows:

	2014	2013
Commercial Banks	52,928,737,115	57,158,619,972
Thrift Banks	2,645,730,956	2,646,720,894
Rural Banks	3,036,598,578	2,956,862,146
	58,611,066,649	**62,762,203,012**

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	2014		2013 (As restated)	
	Less than 12 months	Over 12 months	Less than 12 months	Over 12 months
ASSETS				
Cash and cash equivalent	2,156,756,822	-	3,002,306,657	-
Investments at amortized costs	6,651,188,038	137,696,667,078	17,045,130,000	106,448,444,609
Loans and receivables	49,797,392	8,407,208,894	23,820,021	20,337,685,883
Financial assets at fair value through other comprehensive income	-	3,679,804,600	-	6,303,000,000
Non-current assets held for sale	1,386,255,846	-	1,776,714,879	-
Investment properties	-	323,006,981	-	-
Other assets	1,178,140,815	83,532,527	752,986,270	83,379,887
Total Assets	**11,422,138,913**	**150,190,220,080**	**22,600,957,827**	**133,172,510,379**
LIABILITIES				
Accounts payable and other liabilities	2,497,296,985	-	2,896,596,516	-
Insured deposit claims payable	574,297,836	-	1,270,259,539	-
Loans and interest payable at amortized costs	1,784,303,982	56,826,762,667	2,038,096,000	60,724,107,012
Total Liabilities	**4,855,898,803**	**56,826,762,667**	**6,204,952,055**	**60,724,107,012**
NET	**6,566,240,110**	**93,363,457,413**	**16,396,005,772**	**72,448,403,367**

16. ASSESSMENT INCOME

This consists of assessment premiums received as follows:

	2014	2013
First semester	7,257,181,445	5,514,871,858
Second semester	7,818,986,400	6,102,934,397
	15,076,167,845	**11,617,806,255**

17. INCOME FROM INVESTMENTS

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

	2014	2013
Investment securities at amortized cost	6,118,208,999	5,039,750,477
Cash equivalents	4,758,287	54,203,209
Gain on sale of securities	24,369,625	324,040,019
	6,147,336,911	**5,417,993,705**

18. INCOME FROM FINANCIAL ASSISTANCE

The balance of this account refers to interest income totaling P282,175,179 in 2014 and P931,685,321 (as restated) in 2013, derived from financial assistance to banks by way of interest bearing direct loans and acquisition of assets.

19. INCOME FROM TAX SUBSIDY

A total of P3,093,151,615 in 2014 and P3,410,855,070 in 2013 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.

20. OTHER INCOME/(LOSS)

Balance of this account consists of the following:

	2014	2013 As Restated
Miscellaneous income	363,808,432	85,932,881
Service income	237,437,700	227,873,600
Gain on sale of disposed assets	22,595,148	6,753,604
Dividend income	22,482,531	5,937,342
Income from sale of acquired assets	5,794,644	4,307,235

Interest on late payment of assessment	37,054	332,154
Gain/(loss) on foreign currency revaluation	(44,232)	71,616
Day 1 gain/(loss)	(29,524,042)	(399,542)
Gain/(loss) on early extinguishment of debt	(914,231,871)	-
	(291,644,636)	**330,808,890**

21. OPERATING EXPENSES

This account consists of the following:

	2014	2013
Personal services	1,001,024,270	952,340,785
Maintenance and other operating expenses	388,632,476	377,997,825
	1,389,656,746	**1,330,338,610**

The Gender and Development (GAD) expenses amounted to P239,790 in 2014. These were incurred for GAD capacity-building and participation in GAD seminars, GAD learning sessions/activities undertaken during the Women's Month celebration and Campaign to End Violence Against Women.

22. 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 2014 taxes, duties and license fees paid or accrued in 2014:

	2014	2013 As Restated
Value added tax (VAT) [22.1/]	784,814,677	1,543,606,671
Income Tax	734,321,078	1,443,141,106
Capital Gains Tax	-	82,188
Documentary stamp tax	534	20,550
Withholding taxes		
On compensation and benefits	160,213,184	142,937,182
Creditable withholding taxes	57,490,475	29,671,414
Final withholding taxes	288,412	272,195
Other taxes and licenses		
Community tax certificate	10,500	10,500
BIR annual registration fee	500	500
	1,737,139,360	**3,159,742,306**

22.1 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.

23. PROVISION FOR INSURANCE LOSSES

The charging of provision for insurance losses is in accordance with Note 2.4 f.2.3. For year 2014, P5,839,000,000 provision for insurance losses was charged to income to ensure adequacy of reserve for insurance calls.

24. INSURANCE AND FINANCIAL ASSISTANCE LOSSES

This consists of the following:

	2014	**2013 As Restated**
Rehabilitation cost [24.1/]	2,661,000,000	1,194,862,014
Receivership and liquidation expenses [24.2/]	1,899,980,516	6,735,627
Deposit claims pay-out expenses [24.3/]	1,219,345,428	9,854,507,795
	5,780,325,944	**11,056,105,436**

24.1 Rehabilitation cost represents the estimated losses on financial assistance to banks.

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

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

25. INTEREST ON BORROWINGS

This account consists of interest expense totaling P3,208,816,412 in 2014 and P3,493,705,110 in 2013 primarily on outstanding loans from BSP used to fund financial assistance and pay-out operations of various banks.

26. LEASES

The Corporation leased the premises of the Social Security System at Ayala Avenue, Makati City, which serves as PDIC's principal office for P109.088 million in 2014**.** The lease is renewable under certain terms and conditions.

27. CONTINGENT LIABILITIES AND OTHER MATTERS

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

a. Claims for deposit insurance

Forty seven (47) cases were filed against the Corporation for payment of deposit insurance in the estimated amount of P187.719 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.

27.2 Estimated insured deposits

As at September 30, 2014, total insured deposits up to the P500,000 insurance coverage amounted to P1.820 trillion representing 47.72 million accounts. This is equivalent to 22.75 per cent of the total deposits of P8.001 trillion in the banking industry.

27.3 Banks under receivership and liquidation

There are a total of 378 closed banks, net of 255 banks with approved terminal report as of December 31, 2014 under PDIC receivership and liquidation. Of the 378, 15 banks were closed in 2014. The total estimated realizable value of assets and liabilities of the banks amounted to P36.930 billion and P140.579 billion, respectively, based on latest available financial statements.

28. RELATED PARTY TRANSACTION

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

29. FINANCIAL RISK 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.

29.1 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.

29.2 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 of credit enhancement	Net Exposure
		2014	
Loans and receivables	8,250,289,245	1,481,082,366	6,769,206,879
Financial asset at fair value through other comprehensive income	3,642,000,000	-	3,642,000,000
Total credit risk exposure	**11,892,289,245**	**1,481,082,366**	**10,411,206,879**

	2013 (As Restated)		
Loans and receivables	17,412,452,660	8,982,469,820	8,429,982,840
Financial asset at fair value through other comprehensive income	6,303,000,000	-	6,303,000,000
Total credit risk exposure	**23,715,452,660**	**8,982,469,820**	**14,732,982,840**

29.3 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, 2014.

	On demand	Up to 3 months	>3 up to 12 months	> 1 up to 5 Years
As at December 31, 2014				
Accounts payable and other liabilities	-	2,497,296,985	-	-
Insured deposit claims payable	574,297,836	-	-	-
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**
As at December 31, 2014				
Accounts payable and other liabilities	-	2,896,596,516	-	-
Insured deposit claims payable	1,270,259,539	-	-	-
Loans and interest payable	1,602,201,444	29,885,666	406,008,890	13,456,353,374
	2,872,460,983	**2,926,482,182**	**406,008,890**	**13,456,353,374**

	> 5 up to 10 years	> 10 up to 20 years	Over 20 years	Total
As at December 31, 2014				
Accounts payable and other liabilities	-	-	-	2,497,296,985
Insured deposit claims payable	-	-	-	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**
As at December 31, 2014				
Accounts payable and other liabilities	-	-	-	2,896,596,516
Insured deposit claims payable	-	-	-	1,270,259,539
Loans and interest payable	47,184,867,626	-	82,886,012	62,762,203,012
	47,184,867,626	**-**	**82,886,012**	**66,929,059,067**

30. CASH FLOW INFORMATION

Tax liabilities amounting to P3.093 billion and P3.411 billion for 2014 and 2013, respectively, charged against the Tax Expenditure Fund (Note 19) are considered non-cash transactions.

31. RESTATEMENT OF 2013 FINANCIAL STATEMENTS

As a result of BIR audit on the corporation's internal revenue tax liabilities for the taxable year 2013, PDIC was assessed for tax deficiency. Pursuant to Section 17 (c) of the PDIC Charter, DIF 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 budget and booked as adjustment to correct the previous year financial statement.