



# PHILIPPINE DEPOSIT INSURANCE CORPORATION

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ANNUAL REPORT  
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PDIC Resource Center

## LETTER OF TRANSMITTAL



March 31, 1986

Her Excellency  
Mrs. Corazon C. Aquino  
President of the Philippines  
Malacañang, Manila

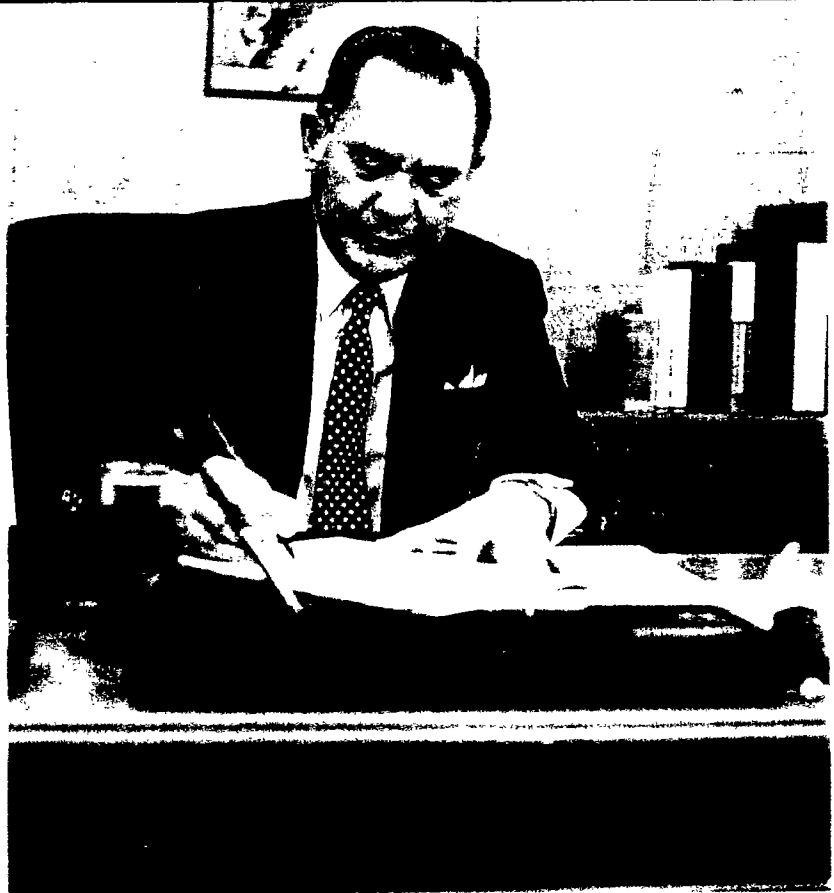
Dear Madame President,

I have the honor to submit this Annual Report covering the activities of the Philippine Deposit Insurance Corporation (PDIC) for the year 1985, pursuant to the provisions of Section 15 of Republic Act No. 3591, as amended.

Very truly yours,

EUGENIO NIERRAS, JR.

## REPORT OF THE PRESIDENT



Despite economic difficulties that had severe impact on the financial operations of banks, the Corporation faced the year's problems and challenges with some measure of optimism as it pursued its mission of protecting the interest of depositors in closed banks.

Insured deposits in fifteen of the 44 banks that closed in 1985 and 37 others that closed in the previous years were paid during the year. The Corporation paid 487,000 depositors their insured deposits amounting to P1,215.8 million. More than half of this, or about P674.6 million, were paid to Banco Filipino depositors through the Philippine National Bank.

Since PDIC started payoff operations in 1970, it had paid out nearly P1,580.0 million to over 762,000 depositors in 130 closed banks. About 89 per cent or P1,408.2 million of this were disbursed during the last three years.

An area of concern is the improvement of the Corporation's financial strength to enable it to perform its role effectively in the face of bank closures. As recommended, the President of the Philippines issued Presidential Decree No. 1985 on October 4, 1985 increasing the PDIC's permanent capital from P20 million to P2 billion. As depositor confidence in the banking system was again being undermined by

bank failures, the ceiling on coverage of bank deposits from P15,000 to P40,000 per depositor was increased on January 11, 1984.

Along with this, the reorganization of the Corporation earlier ordered by the President has enhanced the capabilities of the PDIC in meeting its commitments under the law. The most important feature of this revamp was the reconstitution of the board of directors, with the Governor of the Central Bank as chairman of the Corporation. With the CB Governor at the helm, the administration of the deposit insurance system has been greatly strengthened.

The Corporation performed comparatively well in 1985. At the close of the year, assets reached the level of P3,809.3 million, an improvement over the end-1984 level of P589.8 million. Corporation liabilities, however, have increased considerably owing to the large number of banks closed, from P17.1 million in 1984 to P1,211.6 million in 1985. The PDIC deposit insurance fund totalled P2,598.7 million at year's end.

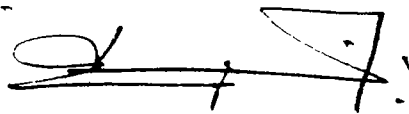
Together with the capital build-up, collections of unremitted assessments were intensified, bringing total assessments at the end of the year to P125.7 million. Total operating income for 1985 amounted to P155.1 million while total operating expenses amounted to P110.3 million. The year's operation resulted in a net loss of P4.4 million.

Bank closures in 1985 compelled the Corporation to employ additional personnel to assist in

payoff operations. Thirty-four new employees were hired during the year and given training in the various phases of payoff work.

For the next year, the Corporation plans to pursue with more vigor payoffs in closed banks, improve further its financial structure, and upgrade the productivity of its personnel complement. Continued emphasis will likewise be given to the improvement of the human resource.

It would have been impossible for us to accomplish what we had set out to do without the cooperation of some sectors. Therefore, I would like to express our thanks and appreciation to the Central Bank of the Philippines for its continuing assistance and counsel, to the banking community for their wholehearted support and cooperation, and to the numerous bank depositors for their confidence and abiding faith in us. I give my thanks also to the entire PDIC staff and employees for their consistent efforts and dedication in the attainment of the Corporation goals.



EUGENIO NIERRAS, JR.  
Acting President

# THE CORPORATION

Republic Act No. 3591 created the Philippine Deposit Insurance Corporation (PDIC) on June 22, 1963 for the primary purpose of providing insurance protection to depositors in case of bank closures. In the discharge of this function, the Corporation is also called upon to help build a strong and progressive banking system.

The PDIC formally started operations in November 1968 with the appointment by President Ferdinand E. Marcos of the first members of the board of directors. Appointed chairman of that board was Mr. Luis Tirso Rivilla who was also the Corporation's first president.

The PDIC's activation was preceded by serious bank runs, culminating in the closure by the Central Bank of the Philippines (CBP) of one commercial bank, two savings banks, one private development bank, and five rural banks. Concerned about the fate of some 100,000 depositors affected by the closed banks, the government through R.A. No. 5517 earmarked P15 million from CBP's surplus funds for the payment of the depositors' claims of P10,000 and below and authorized PDIC to make the payments.

PDIC provides guarantee to every depositor for the recovery of his deposit up to the insured maximum, now set at P40,000 on deposits maintained in the same right and capacity in each member bank. Deposits insured are those kept in savings, time, de-

mand, and foreign currency accounts. Trust accounts ceased to be covered by virtue of Presidential Decree No. 1940 issued on June 27, 1984.

R.A. No. 4083 (approved on June 18, 1964) appropriated P5 million as PDIC's initial capitalization or permanent insurance fund. This fund was increased to P20 million by virtue of the issuance of P.D. No. 120 on January 29, 1973. On October 4, 1985, President Marcos issued P.D. No. 1985 which increased further PDIC's permanent insurance fund to P2 billion.

Each insured bank pays to the Corporation an assessment at the rate of one-twelfth of one percent annually of its total deposit liabilities. The basic assessment is not lower than P500 a year. This is the main source of income of the Corporation. The PDIC derives additional income from its investments in Philippine government securities.

In addition to its own resources, PDIC may borrow from the Central Bank such funds as may be needed for insurance purposes, provided this borrowing is in accord with monetary policy. Moreover, it may issue bonds, debentures, and other obligations whenever its capital or funds are not enough to meet obligations to depositors.

Directing the management, operations and administration of the Corporation is a three-man board of directors composed of the Governor of the CBP as chairman, the President of the Corporation, and the Deputy Minister of Finance.

# PDIC MEMBER BANKS

All banking institutions which accept deposits from the public including branches and agencies in the Philippines of foreign banks are required to insure their deposits with PDIC.

As of December 31, 1985, the number of member banks of the PDIC stood at 1,056, distributed by bank group as follows:

Type of Bank	No. of Banks	No. of Branches
Commercial Banks	30	1,722
Savings & Mortgage Banks	7	219
Private Development Banks	45	170
Stock SLAs	66	154
Rural Banks	905	214
Specialized Government Banks	3	97
<b>ALL BANKS</b>	<u>1,056</u>	<u>2,576</u>

bered 44: 2 commercial banks, 2 savings and mortgage banks, 4 stock SLAs, and 36 rural banks.

One merger took place during the year — that of the Philippine Commercial International Bank and the Insular Bank of Asia & America, with the former as the surviving entity. Also, during the same period, Family Bank & Trust

In 1985, the Central Bank authorized the opening of 26 banking units: 3 head offices, 21 commercial bank branches, 1 rural bank branch, and 1 SLA branch. The new banks are Banco Palawan in Puerto Princesa City, Banco Real in Pasay City, and Vigan Banco Rural, Incorporada in Ilocos Sur. On the other hand, banks closed due to financial difficulties in 1985 num-

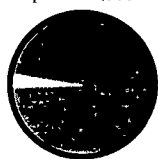
bered 44: 2 commercial banks, 2 savings and mortgage banks, 4 stock SLAs, and 36 rural banks. Co., a savings bank turned commercial bank, reverted to its former status as a savings bank. The new savings bank is owned by the Bank of the Philippine Islands.

On the whole, the banking industry recorded a net decrease of 197 banking units, from 3,829 at the end of 1984 to 3,632 at the end of 1985. ■

# PDIC RISK EXPOSURE

PDIC INSURANCE COVERAGE ON DEPOSIT  
As of December 31, 1985

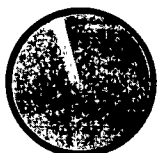
Percent of Accounts  
Up to P40,000



Commercial Banks —  
96.4%



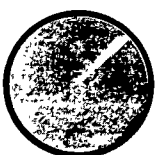
Savings Banks —  
99.0%



Private Development Banks —  
98.9%

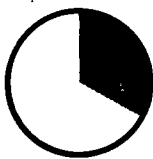


Stock SLAs —  
99.7%

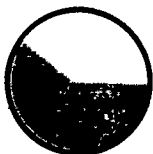


Rural Banks —  
99.8%

Percent of  
Deposits Insured



Commercial Banks —  
29.7%



Savings Banks —  
60.2%



Private DBs —  
56.1%



Stock SLAs —  
74.9%



Rural Banks —  
85.8%

As of December 31, 1985, insured deposits for which the Corporation would be responsible in case of bank closures were estimated at over P51.715 billion, or about 31.93 percent of the total deposits of P161.949 billion. The deposits were those of 32 commercial banks including two specialized government banks, 7 savings and mortgage banks, 46 development banks including the Development Bank of the Philippines, 64 stock SLAs, and 574 reporting rural banks in operation as of that date.

The deposits within the P40,000 level amounted to P32.447 billion while those with balances over P40,000 amounted to P19.268 billion. About 97.69 percent of the industry's total number of deposit accounts were within the insurance limit of P40,000.

For commercial banks, the amount covered by insurance totaled P43.283 billion, or 29.72 percent of the P145.633 billion deposits held by these banks as of December 31, 1985. The banks had over 12.0 million deposit accounts, of which 11.731 million, or approximately 96.40 percent, had balances of P40,000 or less.

In the case of savings banks, the amount of estimated PDIC exposure reached P3.380 billion or about 60.19 percent of these banks' total deposits of P5.615 billion. The deposit accounts in savings banks numbered approximately 2.127 million, and about 99.03 percent of these were within the insurance limit of P40,000.

The total of insured deposits in private development banks amounted to P1.510 billion, or 56.14 percent of the banks' total deposits of P2.690 billion. About 98.96 percent of the total accounts, equivalent to 0.964 million accounts, had balances up to P40,000. Insured deposits in DBP amounted to P0.118 billion or 3.13 percent of the total deposits. DBP had 99.27 percent of its deposit accounts within the P40,000 level.

For 64 stock SLAs and 574 rural banks, the proportions of deposits covered by insurance were 74.92 percent and 85.77 percent, equivalent to P1.462 billion and P1.962 billion, respectively. The SLAs had 99.71 percent of their deposit accounts within the P40,000 level, while the rural banks had 99.81 percent.

# PDIC PAYMENTS IN CLOSED BANKS

Closures of financially distressed banks by the Central Bank continued in 1985 as part of its program of strengthening the banking system. By year's end, forty-four banks including their branches had been ordered closed and placed under receivership as compared to only 26 in 1984. The Corporation's exposure in these banks was estimated at over P1,549.6 million or approximately 40 percent of their combined deposits of P3,867.2 million. In the country's largest savings bank (Banco Filipino Savings & Mortgage Bank) closed during the year, PDIC's liability on insured deposits amounted to P722.2 million in more than 2.4 million accounts.

The Corporation's program for 1985 regarding payoff of insured deposits called for the servicing of about 1.386 million accounts amounting to P1,658.9 million in 81 closed banks, as follows:

1. 31 banks closed in 1984 and prior years where filing of claims has not yet prescribed, with insured deposits estimated at P967.1 million in 716,634 accounts;
2. 7 banks where filing of claims has prescribed but with still unserviced claims filed before prescription, with insured deposits amounting to P3.0 million in 32,886 accounts; and
3. 43 banks (excluding Banco Filipino) closed in 1985, with insured deposits of P688.7 million in 637,014 accounts.

Despite the continued deficiency in the number of PDIC personnel involved in payoff operations, the Corporation was able to service 52

of the 81 banks programmed, involving the payment of P1,215.8 million to some 487,000 depositors. PDIC payments by bank group are shown below.

since 1970 to P1,579.9 million, corresponding to 762,800 accounts.

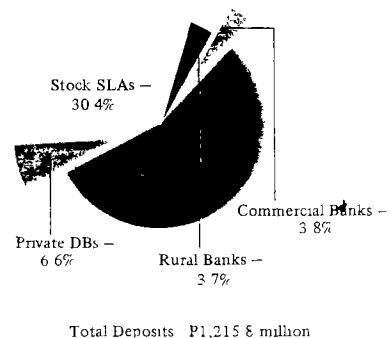
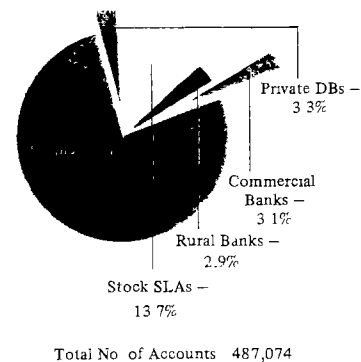
Type of Bank	Payments in 1985	
	No. of Accounts	Amount (in thousands)
Commercial Banks	15,015	45,616
Savings & Mortgage Banks	25,867	674,659
Private Development Banks	45,987	80,878
Stock SLAs	66,097	369,819
Rural Banks	13,970	44,807
<b>TOTAL BANKS</b>	<b>52</b>	<b>1,215,779</b>

The lone savings bank was Banco Filipino Savings & Mortgage Bank which was placed under receivership on January 25, 1985. The servicing of the deposit insurance claims was undertaken by the Philippine National Bank as transferee bank, with funds provided by the Corporation in accordance with PDIC law.

The amount of P466.1 million paid during the year to depositors of 37 banks closed in prior years substantially completed payoff operations in these banks. In the case of some banks that were closed in 1985, actual disbursements may take some time because of the preparations that have to be made to ascertain the record of deposits. The depositor has 18 months from the date of the Order of Liquidation of the Central Bank's Monetary Board to file claims for insured deposits.

The 1985 payments of insured deposits brought total Corporation disbursements in 130 banks closed

PDIC PAYMENTS IN CLOSED BANKS, 1985





# ASSESSMENT AND EXAMINATION ACTIVITIES

Intensified collection efforts by the Corporation resulted in the payment of about P4.812 million, or about 87 percent of the year's target of P5.554 million, in assessment deficiencies based on 1985 and previous year billings. The Corporation also collected the annual payments of subrogated deposits of three closed banks and of previous financial grants to two rural banks.

Billings to date on insurance assessment deficiencies including interest thereon amount to P42.647 million which includes the unpaid deficiencies of the local branches of two foreign banks now the subject of a lawsuit.

For the purpose of assuring that assessments paid by banks are correct, the Corporation conducts regular desk and field audits of the certified statements required to be filed by banks. For the year 1985, some 1,766 certified statements submitted by rural banks and thrift banks were subjected to desk audits, while 88 certified statements submitted by commercial banks and savings banks were objects of field investigations. This represented an increase of 483 investigations over that of 1984.

The Assessment and Examination Department, which administers assessment rules and regulations, also accomplished the following:

1. Rendered technical assistance to new banks in the preparation of certified statements;
2. Held dialogues with members of the banking sector to discuss assessment problems;
3. Circularized all member banks the exclusion of trust funds from total deposit liabilities for assessment purposes; and
4. Made revisions on assessment rules and regulations in order to delete deposits held as collateral from the assessment base and to limit the allowable cash items to those deposited and paid in cash.

## Other Developments

An event of great significance during the year was the increase in PDIC's capitalization from P20 million to P2 billion, by virtue of P.D. No. 1985 issued on October 4, 1985. The enhancement of the PDIC's capital would provide assur-

ance of the adequacy of its resources in meeting deposit insurance obligations in case of bank closures.

Among other important matters attended to during the year were:

1. Approval of the rehabilitation plan for Davao SLA, Inc. and First Iligan SLA, Inc. The initial amount of P70 million released to the banks for their rehabilitation has been requested from the Central Bank.
2. PDIC's transfer of the payoff of insured deposits of Banco Filipino Savings & Mortgage Bank to the Philippine National Bank. PDIC sought a credit line from the CBP to enable it to pay insured deposits of the closed bank.
3. The continued liquidation of six rural banks for which the PDIC President was acting as receiver/liquidator. In relation to this, the Board has directed that a study be made to speed up the process of liquidation of the closed banks under PDIC receivership. ■

# ADMINISTRATION AND PERSONNEL



## Management

There has been no change in the composition of the board of directors during 1985. Central Bank Governor Jose B. Fernandez, Jr. remained as chairman of the board and Deputy Governor Eugenio Nierras, Jr. as acting President of the Corporation. Deputy Minister of Finance, Victor C. Macalincag, is the member-designate of the Minister of Finance.

## Personnel

There were 151 regular employees of the Corporation as of December 31, 1985 compared to 147 on December 31, 1984. Forty-nine casual employees also augmented the PDIC work force.

During the year, the Corporation filled up the existing vacancies in the 1985 plantilla with the appointment of 13 new employees. In addition, it hired 21 casuals to assist in payoff operations. Earlier, the Corporation had sought exemption from the provision of LOI No. 146 regarding hiring of personnel and filling up of 15 new positions created by the Board under Resolution No. 28 dated March 15, 1984.

Atty. Concepcion M. Recto, Chief Legal Counsel, was appointed under permanent status to Assistant Vice-President for Operations, this position was being held by

Miss Carmelita C. Vidal who retired earlier. Atty. Recto, who is concurrent Secretary to the Board, has been with the Corporation since 1969.

Atty. Rosalinda U. Casiguran, Legal Executive Assistant, replaced Atty. Recto as Chief Legal Counsel. Some 15 rank-and-file personnel were also promoted along with Recto and Casiguran.

## Personnel Development

Three senior executives of the Corporation participated in the Executive Leadership and Management (ELM) program of the Civil Service Academy, held April 9 to May 9, 1985 at the Development Academy of the Philippines in Tagaytay City. Under Civil Service Commission (CSC) Resolution No. 850, all executives of government-owned or controlled corporations are required to train at the Civil Service Academy.

In coordination with the PC-INP Crime Laboratory Service, the PDIC conducted from August 31 to November 30, 1985 in-house training in Handwriting Identification and Forgery Detection. Thirty-two employees involved in payoff operations participated in the month-long seminar.

Also during the year, the PDIC sought the integration of the subject "Bank Deposit Insurance" in the regular courses periodically offered by the Central Bank Institute for bank officers and CB examiners. Recent developments in the banking scene have made imperative the familiarization by training participants of the PDIC's operations.

### Employee Benefits

In 1985, the Board approved the following benefits for the Corporation's employees:

1. Increase in the clothing allowance of PDIC personnel including COA personnel assigned to the Corporation;
2. Grant of additional cost-of-living allowance to all PDIC officers and employees effective June 1, 1985, pursuant to Executive Order No. 985 issued on September 18, 1984;
3. Renewal of group personal accident insurance benefits of casual employees with The Philamgen Insurance Group.
4. Insurance coverage of temporary employees by GSIS pursuant to Section 3 of Presidential Decree No. 1146 (Revised Government Insurance Act of 1977);
5. Grant to Security Guards of additional compensation for night duty, holiday duty, and extended tour of duty;
6. Implementation of the one-step salary adjustment for 37 employees who have rendered one year satisfactory service; and
7. Payment of per diems to the members of the board of trustees of the Provident Fund and the grant of monthly honorarium to the officers of the Fund. ■

## PROGRAMS AND PROJECTS

PDIC's primary thrust next year will be the following:

- \* Servicing of 65 banks and 139 branches closed in 1985 and prior years with still unserviced insured deposits amounting to about P852.0 million in approximately 1,038 million accounts. Claims filed on or before the statutory prescriptive period in the case of banks closed in 1984 and prior years will be paid first depending upon the claimant's compliance with PDIC requirements.
- \* Payoff in banks that may be closed in 1986.
- \* Field audit of 173 certified statements from 32 commercial banks, 6 savings banks, and 6 private development banks.
- \* Desk audits of 1,500 certified statements of rural banks, stock SLAs, and private development banks.
- \* Collecting unpaid assessments of previous year's billings and amortizations on financial assistance and subrogated deposits.
- \* Conducting special examinations of banks to check violations of banking laws and regulations and the development of unsafe and unsound banking practices.
- \* Monitoring member banks' compliance with the mandatory requirement with regards to the official advertising statement in all advertisements issued by banks and the display of the standard PDIC signs in bank premises.
- \* Providing continuous and relevant training programs to PDIC personnel.
- \* Conducting continuing review and study of personnel policies and procedures.
- \* Implementing the new accounting system characterized by the adoption of special books instead of tickets. Related to this will be changes in personnel workload and assignments to conform to the new system. ■

# FINANCIAL HIGHLIGHTS

(Peso amounts in thousands)

## RESULTS OF OPERATIONS

	December 31, 1985	December 31, 1984	Increase Amount	(Decrease) Percent
Total Income	161,098	135,767	25,331	18.66
Total Expenses	110,345	15,282	95,063	622.06
Operating Income Before Provision for Losses	50,753	120,485	(69,732)	(57.88)
Less: Provision for Losses	48,418	120,150	(71,732)	(60.00)
Net Income Before Extraordinary Losses	2,335	335	2,000	597.00
Less: Extraordinary Losses	6,717	3	6,714	2,238.00
Net Income (Loss)	4,382	332	( 4,714)	(1,420.00)

## FINANCIAL CONDITION

Total Assets	3,809,342	589,825	3,219,517	546.00
Current Assets	321,420	72,710	248,710	342.00
Long-term Investments	76,990*	164,460	( 87,470)	( 53.19)
Assets Acquired in Bank Assistance & Deposit Subrogation Transactions	1,524,738	330,939	1,193,799	360.73
Property and Equipment	3,771	4,179	( 408)	( 9.76)
Other Assets	1,882,423	17,537	1,864,886	10,634.01
Total Liabilities & Deposit Insurance Fund	3,809,342	589,825	3,219,517	546.00
Total Liabilities	1,212,419	17,116	1,195,303	6,984.00
Current Liabilities	135,307	1,412	133,894	9,482.58
Long-term Liabilities	1,070,000	—	1,070,000	—
Other Liabilities and Deferred Credits	7,112	15,704	( 8,592)	( 55.00)
Deposit Insurance Fund	2,596,923	572,709	2,024,214	353.45
Permanent Insurance Fund	2,000,000	20,000	1,980,000	9,900.00
Retained Earnings (Deficit)	606	4,810	( 4,204)	( 87.00)
Reserve for Insurance Losses	596,317	547,899	48,418	9.00

\*See No. 2 of Notes to Financial Statements.

# FINANCIAL PERFORMANCE

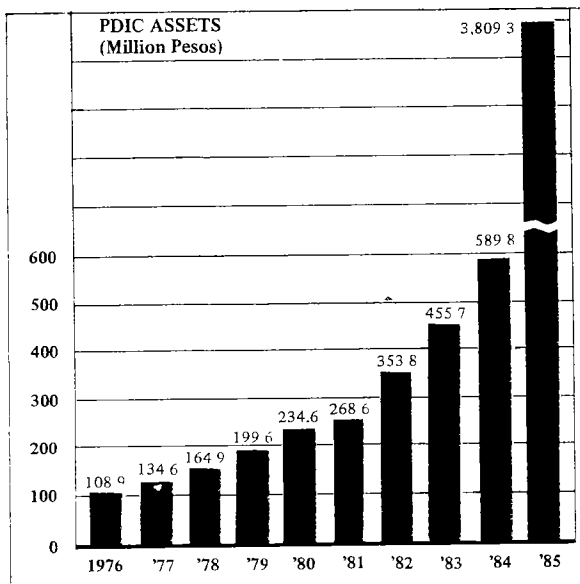
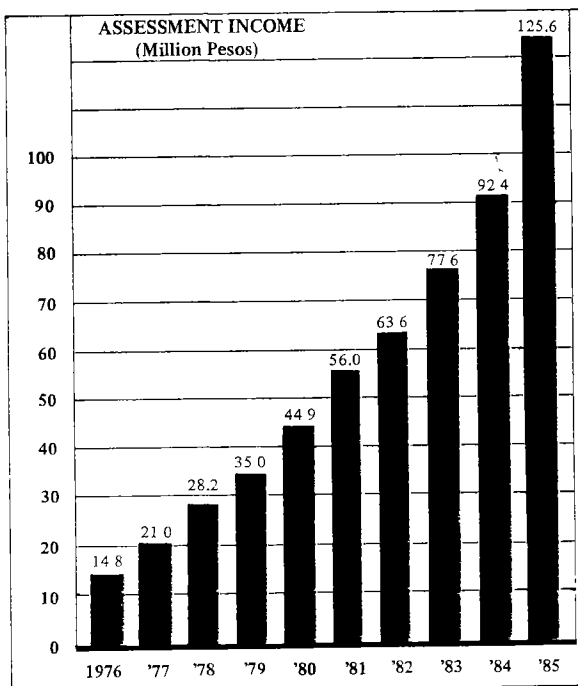
## Results of Operation

Gross operating income for the year rose to P161.1 million, an increase of 18.66 percent over the previous year's results of P135.8 million. Much of this gain was reflected in deposit insurance assessments which increased 35.87 percent from P92.5 million to P125.7 million. Other income, largely from the Corporation's investments in Philippine government securities and interest earnings on deposits, showed a decline of 18.24 percent, from P43.3 million to P35.4 million.

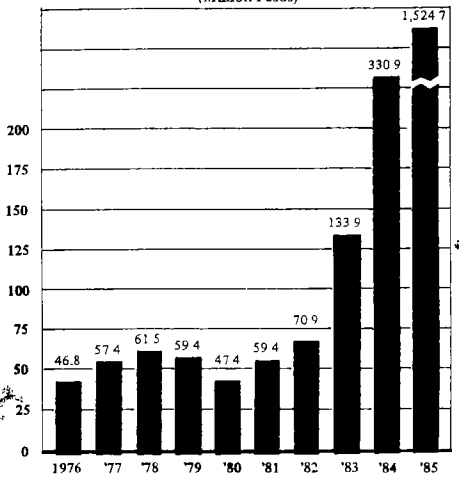
Total operating expenses increased to a total of P110.3 million, from P15.3 million in 1984. The cost of borrowed funds constituted the largest expense item, amounting to P88.6 million, or more than 80 percent of total operating expenses. Personal services totalled P9.6 million and administrative and other operating expenses P12.1 million. The Corporation ended the year with a deficit of about P4.4 million due to the losses incurred on pre-termination of investments in DBP Countryside Bills and NHMF Bahayan Bonds.

## Financial Condition

Assets continued to grow in 1985, and at the end of the year totalled P3,809.3 million. The gain of P3,219.5 million in assets was largely due to the increase in PDIC's capitalization, reflected in Due from National Treasury in the amount of P1,880.0 million.



**ASSETS ACQUIRED IN BANK ASSISTANCE AND DEPOSIT SUBROGATION TRANSACTIONS**  
(Million Pesos)



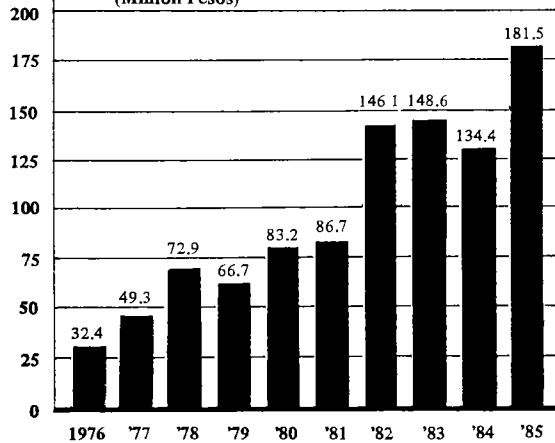
PDIC assets arising from subrogated claims paid amounted to P1,445.7 million, or 37.96 percent of total assets. Investments in PGO also expanded from P164.6 million to P181.6 million and current assets from P72.7 million to P321.4 million.

The liabilities of the Corporation increased from P17.1 million to P1,212.4 million principally as a result of the numerous bank closures. The rise in liabilities is shown in Notes Payable to the Central Bank, amounting to P1,070.0 million.

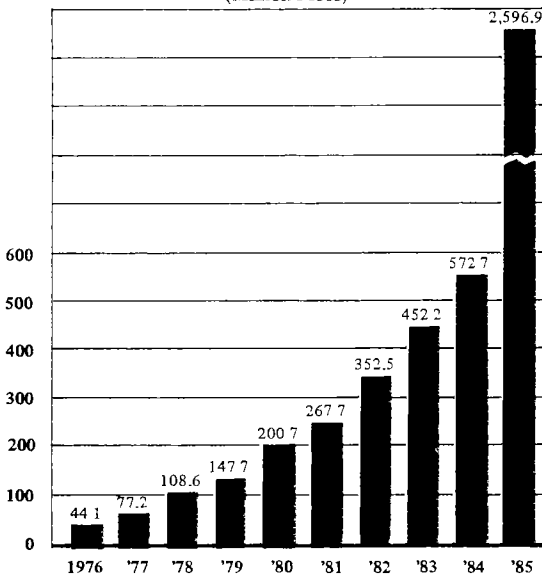
### Deposit Insurance Fund

The increase in the PDIC's permanent fund to P2 billion brought the total of the deposit insurance fund available for insurance losses to P2,596.9 million at year's end. This was P2,024.2 million higher than the previous year's total of P572.7 million. The year's allocation of P48.4 million for insurance losses boosted the Reserve for Insurance Losses to P596.3 million at the close of 1985. ■

**INVESTMENTS IN PGO**  
(Million Pesos)



**DEPOSIT INSURANCE FUND**  
(Million Pesos)



# AUDITOR'S CERTIFICATE



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
CENTRAL OFFICE

Don Mariano Marcos Avenue, Quezon City, Philippines  
Don Mariano Marcos Avenue, Quezon City, Philippines  
Tel. Nos. 98-17-31; 99-26-81; 99-54-02; 96-79-88; 98-72-66; 98-07-59

The Board of Directors  
Philippine Deposit Insurance Corporation  
Makati, Metro Manila

We have examined in compliance with Section 2 Article XII-D of the Philippine Constitution, pertinent provisions of Presidential Decree No. 1445, and Sections 15(b) and (c) of Republic Act 3591, as amended, the statement of condition of the Philippine Deposit Insurance Corporation as at December 31, 1985 and the related statement of income and expenses for the year then ended.

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other procedures as we considered necessary in the circumstances. The corporation has not up-dated its bank reconciliation for regular disbursements nor has it reconciled the cash in banks used for pay-off operations against actual payment of deposit liabilities of closed banks.

In our opinion, subject to the foregoing comments, the accompanying statement of condition and statement of income and expenses, present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operation for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

  
JORGE T. OCAMPO  
Auditor VIII

February 24, 1986

# STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Years Ended December 31, 1985 and 1984

	1985	1984
<b>OPERATING INCOME:</b>		
Assessment Income	P125,667,464	P 92,488,394
Interest Earned	33,227,121	30,511,568
Earned Discounts	2,190,550	12,680,409
Miscellaneous Income	12,942	86,737
<b>Total Operating Income</b>	<b>161,098,077</b>	<b>135,767,108</b>
<b>OPERATING EXPENSES:</b>		
Personal Services	9,632,720	8,897,626
Management Expenses	2,186,838	1,600,348
Property Expenses	897,288	693,013
Communications	232,971	182,996
Interest Expense (Note 10)	88,644,915	—
Travel	890,242	813,370
Taxes (Note 10)	7,696,267	2,962,963
Others	163,294	131,257
<b>Total Operating Expenses</b>	<b>110,344,535</b>	<b>15,281,573</b>
<b>OPERATING INCOME BEFORE PROVISION FOR INSURANCE LOSSES</b>	<b>50,753,542</b>	<b>120,485,535</b>
<b>PROVISION FOR INSURANCE LOSSES (Note 9)</b>	<b>48,418,259</b>	<b>120,150,000</b>
	<b>2,335,283</b>	<b>335,535</b>
<b>EXTRAORDINARY LOSSES:</b>		
Loss on Sale of Equipment	—	2,804
Loss on Pre-termination of Investment	6,717,200	—
	<b>6,717,200</b>	<b>2,804</b>
<b>NET INCOME (LOSS)</b>	<b>( 4,381,917)</b>	<b>332,731</b>
Retained Earnings, January 1	4,809,847	4,476,635
Add: Prior Year's Adjustments	177,968	481
	<b>4,987,815</b>	<b>4,477,116</b>
<b>RETAINED EARNINGS, DECEMBER 31</b>	<b>P 605,898</b>	<b>P 4,809,847</b>

See Accompanying Notes to Financial Statements.



# STATEMENTS OF CONDITION

As of December 31, 1985 and December 31, 1984

## ASSETS

	1985	1984
<b>CURRENT ASSETS</b>		
Cash, Including Time Deposits of P120,000,000 with PNB in 1985	P143,345,321	P 13,203,522
Payoff Funds (Note 1)	58,117,788	18,304,972
Philippine Government Obligations — Current Portion (Note 2)	104,600,000	31,430,000
Accounts and Other Receivables (Note 3)	14,976,413	9,648,126
Inventory of Supplies & Materials	380,946	123,513
<b>Total Current Assets</b>	<b>321,420,468</b>	<b>72,710,133</b>
<b>LONG TERM INVESTMENTS — At Cost</b>		
Time Deposit — PNB	—	30,000,000
Philippine Government Obligations — Net of Current Portion (Note 2)	76,990,000	134,460,000
	<b>76,990,000</b>	<b>164,460,000</b>
<b>ASSETS ACQUIRED IN BANK ASSISTANCE AND DEPOSIT SUBROGATION TRANSACTIONS (Notes 4 and 8)</b>	<b>1,524,738,085</b>	<b>330,938,969</b>
<b>PROPERTY AND EQUIPMENT (Net) — At Cost (Note 5)</b>	<b>3,771,207</b>	<b>4,179,052</b>
<b>OTHER ASSETS (Note 6)</b>	<b>1,882,422,567</b>	<b>17,536,942</b>
<b>TOTAL ASSETS</b>	<b>P3,809,342,327</b>	<b>P589,825,096</b>

See Accompanying Not

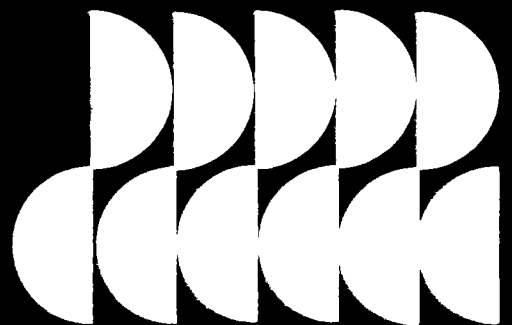
## LIABILITIES & DEPOSIT INSURANCE FUND

	1985	1984
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	P 89,854,251	P 816,181
Due to PNB (Notes 7 and 8)	40,199,848	—
Due to GSIS	138,919	92,381
Due to Officers and Employees	574,069	305,517
Income Tax Payable — Estimated	91,598	147,641
Withholding Tax	26,849	30,104
PAG-IBIG Premiums Payable	15,440	14,251
Provident Fund Contributions and Loans Payable	135,447	5,545
Unearned Discounts	4,270,237	—
<b>Total Current Liabilities</b>	<b>135,306,658</b>	<b>1,411,620</b>
<b>LONG-TERM LIABILITY</b>		
Notes Payable — Central Bank (Note 7)	1,070,000,000	—
<b>OTHER LIABILITIES AND DEFERRED CREDITS</b>		
Funds Held in Trust	5,525,887	5,525,887
Deferred Assessment Income	53,568	29,709
Deferred Discounts	1,532,718	3,018,951
Deferred Interest Income	—	7,129,743
	<b>7,112,173</b>	<b>15,704,290</b>
<b>DEPOSIT INSURANCE FUND</b>		
Permanent Insurance Fund (Note 6)	2,000,000,000	20,000,000
Retained Earnings	605,898	4,809,847
Reserve for Insurance Losses	596,317,598	547,899,339
	<b>2,596,923,496</b>	<b>572,709,186</b>
<b>TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND</b>	<b>P3,809,342,327</b>	<b>P 589,825,096</b>

# STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1985 and 1984

	1985	1984
WORKING CAPITAL WAS PROVIDED FROM		
Operations		
Net Income (Loss) [Inclusive of prior year's adjustments]	(P 4,203,949)	P 333,211
Add: Items not Requiring Working Capital		
Depreciation	480,699	417,276
Reserve for Insurance Losses	48,418,259	120,150,000
Collection of Loans/Bank Assistance	1,145,613	580,000
Loss on Sale of Equipment	-	2,805
<b>Total from Operations</b>	<b>45,840,622</b>	<b>121,483,292</b>
Proceeds from Sale of Equipment	-	9,789
Matured Securities Guaranteed by the Philippine Government	87,470,000	14,203,000
Long-Term Borrowings	1,070,000,000	-
Increase in Capitalization	1,980,000,000	-
Increase in Other Liabilities	-	13,686,753
<b>Total Working Capital Provided</b>	<b>3,183,310,622</b>	<b>149,382,834</b>
WORKING CAPITAL WAS USED FOR		
Subrogated Claims Paid	1,131,232,293	182,103,934
Bank Assistance	63,712,436	15,439,179
Additions to Property & Equipment	72,854	531,991
Investment in Certificates of Time Deposit - PNB	-	30,000,000
Increase in Other Assets	1,864,885,625	1,897,615
Decrease in Other Liabilities	8,592,117	-
<b>Total Working Capital Used</b>	<b>3,068,495,325</b>	<b>229,972,719</b>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<b>P 114,815,297</b>	<b>(P 80,589,885)</b>
CHANGES IN WORKING CAPITAL		
	1985	1984
CURRENT ASSETS		
Cash on Hand/Bank	P 130,141,799	(P112,823,911)
Payoff Funds	39,812,815	9,187,882
Accounts and Other Receivables	5,328,287	( 8,592,100)
Other Current Assets	73,427,433	31,501,763
<b>Increase (Decrease) in Current Assets</b>	<b>248,710,334</b>	<b>( 80,726,366)</b>
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	89,038,069	( 229,438)
Unearned Discounts	4,270,237	-
Other Payables	40,586,731	92,957
<b>Increase (Decrease) in Current Liabilities</b>	<b>133,895,037</b>	<b>( 136,481)</b>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<b>P 114,815,297</b>	<b>(P 80,589,885)</b>



**NOTES TO  
FINANCIAL  
STATEMENTS**

# NOTES TO FINANCIAL STATEMENTS

December 31, 1985 and 1984

## 1. PAYOFF FUNDS

This account consisted of bank deposits in either savings or current account with various banks in different provinces or localities for the purpose of paying off the insured deposits of the closed member banks. Reconciliation of bank accounts is being updated.

## 2. PHILIPPINE GOVERNMENT OBLIGATIONS

Securities guaranteed by the government consisted of the following

	1985	1984
9.0% DBP Countryside Bills	P 9,090,000	P 48,610,000
14.0% NHMFC Bahayan Mortgage Participating Certificates	61,400,000	95,780,000
8.5% Treasury Notes	6,500,000	6,500,000
16.5% Treasury Bills	104,600,000	—
CBCIs (discounted at 17%)	—	15,000,000
<b>Total</b>	<b>181,590,000</b>	<b>165,890,000</b>
<b>Less: Current Portion</b>	<b>104,600,000</b>	<b>31,430,000</b>
<b>Long-term Investments</b>	<b>P 76,990,000</b>	<b>P134,460,000</b>

Treasury Bills valued at P104,600,000 will mature in April, 1986. The remaining government securities are all maturing in 1988 except for the Treasury Notes which will mature in 1996. The bulk of the securities was purchased at a discount ranging from 2% to 24%.

## 3. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consisted of

	1985	1984
Accounts Receivable	P 1,663,067	P 113,443
Advances to Commercial Bank of Manila	1,500,000	—
Due from Officers and Employees	473,094	611,011
Cash with Claim Agent	2,997	8,741
Accrued Interest Receivable on bank deposits and PGO	11,337,255	8,914,931
<b>Total</b>	<b>P 14,976,413</b>	<b>P 9,648,126</b>

## 4. ASSETS ACQUIRED IN BANK ASSISTANCE AND DEPOSIT SUBROGATION TRANSACTIONS

The breakdown of the account is shown below:

	1985	1984
Subrogated Claims Paid	P1,445,740,502	P314,508,209
Notes Receivable	78,950,583	16,368,760
Time Deposit	47,000	62,000
<b>Total</b>	<b>P1,524,738,085</b>	<b>P330,938,969</b>

The increase in Notes Receivable was due to the financial assistance made to Rural Bank of Davao amounting to P70.0 million.

Subrogated Claims Paid in 1985 increased by P1.131 billion, or 341.69 percent over 1984 level of P331.0 million.

## 5. PROPERTY AND EQUIPMENT

Property and Equipment consisted of

	1985	1984
Land	P 759,000	P 759,000
Building	4,848,314	4,848,314
Equipment	1,259,274	1,199,778
Furniture and Fixtures	333,844	320,487
	<u>7,200,432</u>	<u>7,127,579</u>
Less: Accumulated Depreciation		
Building	2,350,898	2,078,650
Equipment	777,268	590,166
Furniture and Fixtures	301,059	279,711
	<u>3,429,225</u>	<u>2,948,527</u>
Net — At Cost	P 3,771,207	P 4,179,052

Depreciation charges amounted to P480,699 in 1985 and P417,276 in 1984. The building has an estimated life of 30 years. Equipment and Furniture & Fixtures are estimated to have a useful life of five and ten years, respectively.

## 6. OTHER ASSETS

Other assets consisted of the following

	1985	1984
Due from National Treasury	P1,880,000,000	P 15,000,000
Loans Receivable — Provident Fund	2,000,000	2,000,000
Deferred Transportation Expenses	370,589	485,047
Subscriber's Investment	33,000	33,000
Inventory of Decals/Standees	6,056	4,973
Deposit with other Companies	12,536	13,536
Deposit with Bureau of Telecommunications	386	386
Total	<u>P1,882,422,567</u>	<u>P 17,536,942</u>

The increase in Due from National Treasury represents additional capitalization authorized under P.D. No. 1985 issued on October 4, 1985. The increase in the capitalization also builds up the deposit insurance fund to P2.0 billion.

Deferred Transportation Expenses of P370,589 is the share of the Corporation in the Car Plan that has to be amortized over a five-year period.

The PDIC Provident Fund was established under P.D. No. 1940 issued on June 27, 1984 and funded by a P2.0-million loan from the Corporation.

## 7. DUE TO PHILIPPINE NATIONAL BANK

The amount of P40.2 million represents the excess of funds released by PNB in favor of Banco Filipino depositors over the funds provided by the Corporation in the amount of P550.0 million.

8. NOTES PAYABLE – CENTRAL BANK

During the year, the Corporation executed several promissory notes for loans granted by the Central Bank of the Philippines amounting to P1,070.0 million payable in five years at interest rates averaging 14% per annum.

These amounts have been provided to pay off Banco Filipino for P550.0 million, various banks P450.0 million and Rural Bank of Davao, P70.0 million in the form of financial assistance.

9. RESERVE FOR INSURANCE LOSSES

The reserve increased by P48.4 million or 9.0 percent over 1984 level of P548.0 million.

10. INCOME/EXPENSES

The total income in 1985 showed an increase of P25.4 million or equivalent to 18.66 percent over P135.7 million in 1984.

Expenses in 1985 surpassed 1984 levels by P95.01 million or 622.11 percent. This can be attributed to the increase in taxes and cost of interest expense on loans granted by the Central Bank accruing as of December 31, 1985.

# STATISTICS

## NUMBER OF BANKING OFFICES

Bank Group/Type of Office	December 31, 1985	December 31, 1984	CHANGE
<b>COMMERCIAL BANKS</b>			
Head Offices	30	34	( 4)
Branches	1,485	1,577	( 92)
Sub-Branches	12	13	( 1)
Savings Agencies	11	59	( 48)
Extension Offices	139	147	( 8)
Money Shops/Service Offices	56	70	( 14)
Representative Offices	19	22	( 3)
Total	1,752	1,922	(170)
<b>SAVINGS &amp; MORTGAGE BANKS</b>			
Head Offices	7	8	( 1)
Branches	180	142	38
Extension Offices	31	59	( 28)
Money Shops	1	1	—
Savings Agencies	7	1	6
Total	226	211	15
<b>PRIVATE DEVELOPMENT BANKS</b>			
Head Offices	45	43	2
Branches	97	93	4
Sub-Branches	1	1	—
Savings Agencies	17	17	—
Extension Offices	53	53	—
Money Shops/Service Offices	2	2	—
Total	215	209	6
<b>STOCK SAVINGS &amp; LOAN ASSOCIATIONS</b>			
Head Offices	66	70	( 4)
Branches	85	87	( 2)
Savings Agencies	47	51	( 4)
Money Shops	18	18	—
Extension Offices	4	4	—
Total	220	230	( 10)
<b>RURAL BANKS</b>			
Head Offices	905	940*	( 35)
Branches	109	109	—
Extension Offices	52	54	( 2)
Savings Agencies	8	8	—
Money Shops	45	46	( 1)
Total	1,119	1,157	( 38)
<b>SPECIALIZED GOVERNMENT BANKS</b>			
Head Offices	3	3	—
Branches	72	72	—
Sub-Branches	15	15	—
Savings Agencies	7	7	—
Extension Offices	3	3	—
Total	100	100	—
<b>ALL BANKS</b>			
Head Offices	1,056	1,098	( 42)
Branches	2,028	2,080	( 52)
Sub-Branches	28	29	( 1)
Savings Agencies	97	143	( 46)
Extension Offices	282	320	( 38)
Money Shops/Service Offices	122	137	( 15)
Representative Offices	19	22	( 3)
Total	3,632	3,829	(197)

\*Adjusted from previously reported figure of 955.



## PDIC LIABILITIES ON DEPOSITS UNDER THE P40,000 COVERAGE

As of December 31, 1985

Bank Group	Total	NUMBER OF ACCOUNTS		Percent of Accounts Up to P40,000
		Up to P40,000	Over P40,000	
COMMERCIAL BANKS <sup>1</sup>	12,169,205	11,731,189	438,016	96.40
SAVINGS & MORTGAGE BANKS	2,126,838	2,106,230	20,608	99.03
DEVELOPMENT BANKS				
DBP (Government)	78,634	78,060	574	99.27
Private	964,206	954,159	10,047	98.96
STOCK SLAs <sup>2</sup>	2,263,153	2,256,689	6,464	99.71
RURAL BANKS <sup>3</sup>	3,208,883	3,202,896	5,987	99.81
ALL BANKS	20,810,919	20,329,223	481,696	97.69

Bank Group	Total Deposits	DEPOSITS (In million pesos)			Percent of Deposits Insured
		Total	Insured Deposits		
			Up to P40,000	Over P40,000	
COMMERCIAL BANKS <sup>1</sup>	145,633	43,283	25,762	17,521	29.72
SAVINGS & MORTGAGE BANKS	5,615	3,380	2,556	824	60.19
DEVELOPMENT BANKS					
DBP (Government)	3,772	118	95	23	3.13
Private	2,690	1,510	1,108	402	56.14
STOCK SLAs	1,952	1,462	1,204	258	74.92
RURAL BANKS <sup>2</sup>	2,287	1,962	1,722	240	85.77
ALL BANKS	161,949	51,715	32,447	19,268	31.93

<sup>1</sup>Includes Land Bank of the Philippines and Philippine Amanah Bank, specialized government banks.

<sup>2</sup>For 64 reporting stock SLAs.

<sup>3</sup>For 574 (out of 905) reporting banks.

## PDIC ASSETS

(In thousands of pesos)

	Total Assets	PGO	Assets Acquired in Bank Assistance and Deposit Subrogation Transactions	Current Assets	Fixed & Other Assets
1976	108,965	32,479	46,832	24,294	5,360
1977	134,657	49,332	57,463	7,114	20,748
1978	164,929	72,981	61,505	9,795	20,648
1979	199,680	66,770	59,426	53,081	20,403
1980	234,645	83,200	47,442	83,905	20,098
1981	268,679	86,770	59,426	102,677	19,806
1982	353,886	146,130	70,950	116,346	20,460
1983	455,792	148,663	133,976	153,436	19,716
1984	589,825	134,460	330,939	72,710 <sup>1</sup>	51,716
1985	3,809,342	181,590 <sup>2</sup>	1,524,738	321,420	1,886,194

<sup>1</sup> Includes PGO amounting to P31.430 million of short-term maturity.

<sup>2</sup> Includes current portion amounting to P104.600 million maturing in April, 1986.

## PDIC INCOME AND EXPENSES

(Amounts in thousands of pesos)

	Total Income	Assessment Income	Other Income	Total Operating Expenses	Operating Income Before PIL*	Provision for Insurance Losses	Net Income Before Extraordinary Losses	Extra- Ordinary Losses	Net Income (Loss)
76	19,653	14,882	4,771	7,611	12,042	11,830	212	—	212
77	27,075	21,035	6,040	9,003	18,072	17,785	287	—	287
78	39,454	28,236	11,218	8,088	31,366	31,100	266	—	266
79	49,206	35,076	14,130	10,070	39,136	38,870	266	—	266
80	64,024	44,919	19,105	11,077	52,947	52,647	300	—	300
81	79,384	56,099	23,285	12,029	67,355	67,050	305	—	305
82	96,372	63,679	32,693	11,694	84,678	84,375	303	—	303
83	114,588	77,612	36,976	15,234	99,354	99,010	344	—	344
84	135,767	92,488	43,279	15,282	120,486	120,150	336	3	333
85	161,098	125,667	29,483	110,345	50,753	48,418	2,335	6,717	(4,382)

Provision for Insurance Losses

## DEPOSIT INSURANCE FUND

(In thousands of pesos)

	TOTAL DIF	Permanent Insurance Fund	Reserve for Insurance Losses	Retained Earnings
1976	44,187	5,000	36,915	2,272
1977	77,282	20,000	54,700	2,582
1978	108,604	20,000	85,800	2,804
1979	147,782	20,000	124,670	3,112
1980	200,708	20,000	177,317	3,391
1981	267,717	20,000	244,367	3,350
1982	352,581	20,000	328,742	3,839
1983	452,226	20,000	427,749	4,477
1984	572,709	20,000	547,899	4,810
1985	2,596,923	2,000,000	596,317	606

## PDIC PAYMENTS OF INSURED DEPOSITS, 1985 & PRIOR YEARS

By Bank Group  
(Amount in thousand of pesos)

Bank Group	Number of Banks Closed	Number of Accounts <sup>1</sup>	Amount of Deposits <sup>1</sup>	No. of Banks Serviced	PDIC PAYMENTS				TOTAL PAYMENTS AS OF DEC 31, 1985	
					Jan 2 - Dec 31, '85	1984 & Prior Years		Number of Accounts	Amount of Deposits	
COMMERCIAL BANKS	5	707,233	3,028,699	4	15,043	45,616	56,710	45,209 <sup>2</sup>	71,753	90,825
SAVINGS & MORTGAGE BANKS	3	2,541,227	1,016,815	2	375,267	674,659	29,598	11,547	404,865	686,206
PRIVATE DEVELOPMENT BANKS	3	116,008	161,500	3	15,987	80,878	6,109	11,553	22,096	92,431
STOCK SLA <sup>3</sup>	24	997,959	1,301,127	22	66,807	369,819	99,310	243,654	166,117	613,473
RURAL BANKS <sup>4</sup>	129	529,129	217,994	99	13,970	44,807	83,999	52,193	97,969	97,000
ALL BANKS	164	4,891,556	5,726,140	130	487,074	1,215,779	277,726	364,156	762,800	1,579,935 <sup>3</sup>

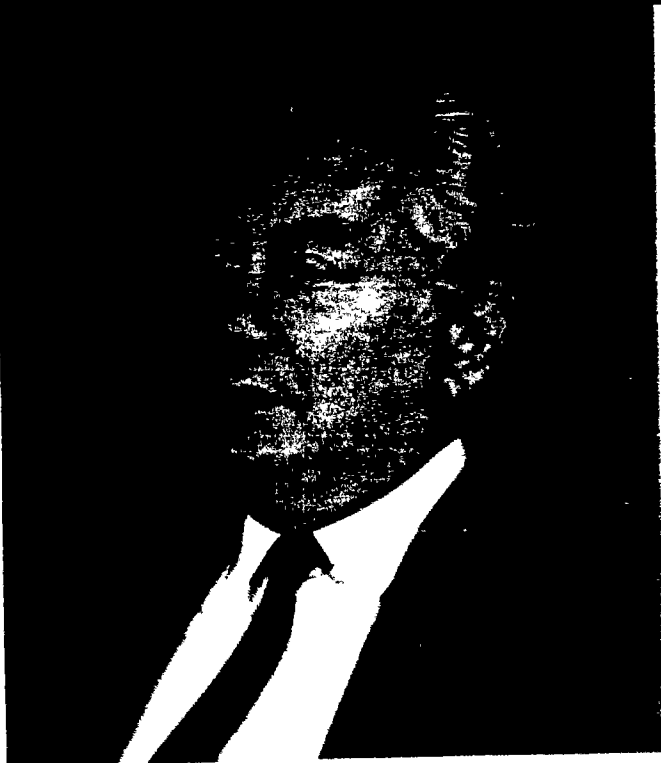
<sup>1</sup> In thousands

<sup>2</sup> Excludes Rural Bank of Iloilo, Inc.

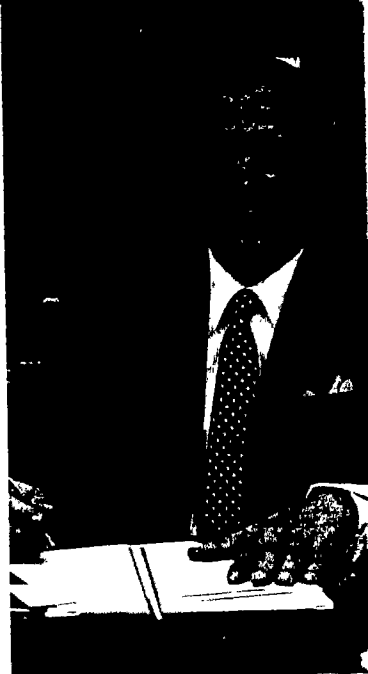
<sup>3</sup> Includes PDIC payments to 12 closed banks which were subsequently rehabilitated. These payments are not included in Subrogated Claims Paid amounting to P 417 million in the Statement of Condition since these are already covered by promissory notes.

<sup>4</sup> NOTE: Items may not add up to totals due to rounding.

# BOARD OF DIRECTORS



**JOSE B. FERNANDEZ, JR.**  
(Governor, Central Bank of the Philippines)  
Chairman



**EUGENIO NIERRAS, JR.** ▲  
(Deputy Governor, Central Bank of the Philippines)  
Member



**VICTOR C. MACALINCAG** ►  
(Deputy Minister of Finance)  
Member

# EXECUTIVE OFFICERS



**EUGENIO NIERRAS, JR.**  
Acting President

**ISAYAS G. PENEYRA**  
Vice-President

**CONCEPCION M. RECTO\***  
Assistant Vice-President for  
Operations

**EDUARDO P. SANTOS**  
Assistant Vice-President for  
Corporate Services

**GRACIA A. ROSALINAS**  
Manager, Assessment and Examination  
Department

**ALBERTO R. ENRIQUEZ**  
Manager, Administrative Department

**LINDA B. GUSTILO**  
Manager, Liquidation and  
Receivership Department

**MA. ELENA E. BIENVENIDA**  
Manager, Treasury Department

**ROSALINDA U. CASIGURAN**  
Chief Legal Counsel

**ERNESTA C. BAROÑA**  
Manager, Accounting Department

**ROBERTO R. GUEVARA**  
Systems Development Officer

\*Corporate Secretary in concurrent capacity.

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Resource Center