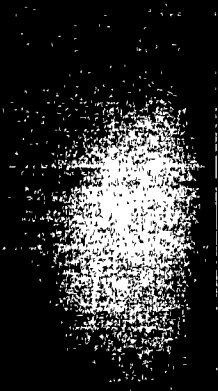




THE UNIVERSITY OF THE PHILIPPINES
INSTITUTIONAL DEVELOPMENT CENTER



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PHILIPPINE DEPOSIT INSURANCE CORPORATION
Makati, Metro Manila

April 30, 1989

Her Excellency
President Corazon C. Aquino
Malacañang, Manila

Dear Mrs. President:

I have the honor to submit this Annual Report of the Philippine Deposit Insurance Corporation (PDIC) for the year 1988, pursuant to the provisions of Section 15 of Republic Act No. 3591, as amended.

Very respectfully,

VITALIANO N. NAÑAGAS II
President

NO 0000014

PDIC Resource Center



PHILIPPINE DEPOSIT INSURANCE CORPORATION
Makati, Metro Manila

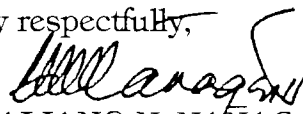
April 30, 1989

Honorable Jovito R. Salonga
President of the Senate
Congress of the Philippines
Manila

Dear Sir:

I have the honor to submit this Annual Report of the Philippine Deposit Insurance Corporation (PDIC) for the year 1988, pursuant to the provisions of Section 15 of Republic Act No. 3591, as amended.

Very respectfully,


VITALIANO N. NANAGAS II
President



PHILIPPINE DEPOSIT INSURANCE CORPORATION
Makati, Metro Manila

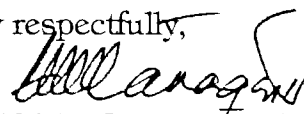
April 30, 1989

Honorable Ramon V. Mitra, Jr.
Speaker of the House of Representatives
Congress of the Philippines
Quezon City

Dear Sir:

I have the honor to submit this Annual Report of the Philippine Deposit Insurance Corporation (PDIC) for the year 1988, pursuant to the provisions of Section 15 of Republic Act No. 3591, as amended.

Very respectfully,


VITALIANO N. NANAGAS II
President

The President's Report



The PDIC has shown significant improvements in its operating and financial performance in 1988. The Corporation recorded a total income of P238.1 million, exceeding 1987's income by over 25 percent. This was mainly due to the increased investment income of about 53 percent. Despite more payoff operations and the rise in expenses to P228.9 million, the Corporation still earned a profit of P6.2 million - 19.24 percent more than the previous year.

PDIC's resources at year-end 1988 reached a new high of P5,718.4 million, up 28.33 percent from P4,455.9 million in 1987. For the same period, the Corporation had total liabilities of P3,186.9 million or a 69-percent hike over last year due to a change in the treatment of deposit liabilities of closed banks in the books of account.

In its 25 years, the Corporation has paid a total of P2,859.1 million to 213 closed banks since the beginning of operations. The thrust of PDIC's activities in the first eight months of the year was the continuation of payments to depositors of previously closed banks. Then, in the last four months of 1988, management embarked on a campaign towards the revitalization of PDIC.

In its commitment to promote stability in the banking system, the Corporation in 1988 granted financial assistance of P400.0 million to a large bank to strengthen its financial condition. The PDIC examination function was revived with the examination of two commercial banks before the year's end. Further, a new system was designed to hasten payoff operations in line with the Corporation's aim to provide prompt service to insured depositors of closed banks.

In 1988, the Corporation also launched its computerization program with the acquisition of the first computer units and the training of employees in their use.

The PDIC Charter, Republic Act No. 3591, as amended, was reviewed. By year end, urgent proposals to strengthen PDIC's operations and finances were finalized for submission to Congress. The deposit insurance fund's inadequacy to cover the potential risk on deposits remains a serious problem. Hence raising the Corporation's equity base to P5 billion is crucial. This will enable PDIC to fully discharge its obligations to depositors and the banking system, and maintain an adequate Permanent Insurance Fund.

Programs for 1989


The thrust for 1989 is centered on directing PDIC's efforts and resources toward the urgent task of paying insured deposits in banks closed before December 1988. The Corporation aims to complete within the year the payment of all claims for insured deposits without legal impediments. Claims found to have legal problems shall be paid as soon as they are resolved. Lined up for servicing are some 196 closed banks with estimated unserviced insured deposits of P2,345 million involving approximately 606,703 accounts.

Emphasis will also be given to PDIC's institutional strengthening. The plan calls for restructuring the organizational framework of PDIC to accommodate the Corporation's expanded activities and functions. Also high on priority is the formulation of policies which will effectively implement the PDIC Charter and realize its corporate objectives. Prudent management while maximizing yields of financial resources will continue to be a major focus.

Systems and procedures will be reviewed for the purpose of enhancing their effectiveness and improving internal controls. Systems and procedural guidelines for the examination, receivership and liquidation functions as well as document control systems relative to financial assistance to banks will be developed and set in place. Computer-based systems shall be designed and installed for greater efficiency of operations. All these shall be in line with the present administration's aim to systematize and manualize all phases of operations of PDIC.

Manpower will be augmented through a more rigid selection process. Training programs will be set up. Employee benefits will be restudied.

In the past 25 years, PDIC has grown into an institution known to protect and provide for the safety of depositors' funds. Today, it aims to play a more significant role in the promotion of a viable and strong banking system, and in greater depositor confidence. With adequate support of the national leadership and the selfless dedication of its management and staff in working towards this goal, 1989 promises to be PDIC's most fruitful year.


VITALIANO N. NANAGAS II
President

Economic Overview

In 1988, PDIC operated in a considerably favorable economic environment. The Philippine economy performed better in that year, with the gross national product (GNP) growing by 6.7 percent, which at constant prices reached ₱101,112 million at the end of the year.

Much of the improvement was attributable to higher investments due to greater business confidence in the economy and a steady rise in both consumer and government spending.

Investments in productive activities increased 25.87 percent even as personal consumption and government expenditures rose by 5.11 percent and 10.54 percent, respectively.

The major sectors of the economy improved: the industrial sector, by 8.90 percent; the services sector, by 7.1 percent; and the agricultural sector, by 3.4 percent.

There was a decline in unemployment rate from 9.1 percent to 8.5 percent of the labor force. Employment rose 3.4 percent even as 708,000 workers joined the labor force.

On the financial front, the inflation and interest rate levels were kept at relatively stable levels. The inflation rate throughout the country was held to a single-digit level despite the rise of commodity prices nationwide. On the other hand, the nominal interest rates on savings deposits levelled off at 4.1 percent

while bank lending rates on secured loans (all maturities) settled at 16.0 percent during the year.

The country improved its balance of payments position with a surplus of \$516 million at the end of the year. However, exports grew 23.67 percent to \$7,074 million, while imports expanded by 21.11 percent to \$8,159 million, resulting in a trade imbalance of \$1,085 million.

The Central Bank's gross international reserves amounting to \$2,058.9 million was higher than the 1987 level by \$100.2 million. During the year, the exchange rate of the peso in relation to the US dollar continued to remain stable. The peso's value at year-end stood at ₱21.09:\$1, representing a slight depreciation of 2.56 percent from 1987's peso-dollar rate of ₱20.57:\$1 dollar.

MONETARY POLICY

In 1988 the Central Bank continued to foster a climate of financial stability conducive to economic growth. CB's activities were concentrated primarily at trimming liquidity, maintaining a stable exchange rate, containing inflation, and stabilizing interest rates. Policies that favored deregulation, encouraged competition, and increased efficiency of intermediation were also enunciated. At the same time, the Central Bank saw to it that credits were made available to vital economic activities.

BANKING DEVELOPMENTS

Given these trends, the banking system displayed greater strength in 1988.

Combined assets of the Philippine banking system grew from ₱312,406 million in 1987 to ₱360,319 million, or by 15.34 percent. The share of commercial banks in the system's total assets amounted to about 86.93 percent or ₱313,232 million.

Improvements in the system's liquidity were evident in the rise of investments and cash and amounts due from banks. Investments of the system rose 30.4 percent to ₱51,231 million while cash and amounts due from banks went up 19.0 percent to ₱93,070 million.

The combined loan portfolio of the system totalled ₱174.912 million, an expansion of ₱28.542 million or 19.50 percent over the past year. The commercial banks accounted for 83.65 percent or ₱23,875 million of this increase, again a substantial portion of the system.

Increased savings and time deposits amounted to ₱39,772 million or a rise in the overall deposit holdings of the system, from ₱177,702 million to ₱226,472 million. Borrowings, on the other hand, declined by 1.08 percent to ₱30,769 million.

The banking system raised its total capital accounts to ₱49,651 million or by 48.90 percent at the end of the year.

Highlights of 1988 Operations

PDIC Member Banks

Ten rural banks, a private development bank and a stock savings and loan association found operating under unsafe practices and unsound conditions were ordered closed by the monetary authorities in 1988. This reduced further the number of PDIC member banks to 982 at the close of the year, as follows:

- 29 Commercial Banks
- 110 Thrift Banks
- 840 Rural Banks
- 3 Specialized Government Banks

For the year, the Central Bank allowed only 21 new offices to be established, a majority of them branches of commercial banks. The small number of offices opened during the year reflected the Central Bank's continued restrictive policy regarding branching particularly in areas considered overbanked.

The number of banks by type and comparative changes are shown in the table below.

PDIC MEMBER BANKS, December 31, 1988
By Type of Bank

Bank Group	Total Offices	Head Offices	Branches	Change from 12-31-87		
				Total	H O s	Branches
COMMERCIAL BANKS	1,746	29	1,717	13		13
THRIFT BANKS	664	110	554	6	(2)	8
SAVINGS & MORTGAGE BANKS	250	8	242	7	-	7
PRIVATE DEV BANKS	205	41	164	-	(1)	1
STOCK SLAs	209	61	148	(1)	(1)	-
RURAL BANKS	1,048	840	208	(10)	(10)	-
SPECIALIZED GOV BANKS	104	3	101	-	-	-
ALL BANKS	3,562	982	2,580	9	(12)	21

PDIC Risk Exposure

At the end of 1988, the amount of risk on deposits to which the Corporation was exposed was estimated at ₱76.377 billion, or approximately 31.40 percent of the banking system's total deposit liabilities. The proportion of deposits insured showed little change during the period in review, although deposits in banks had increased by about 27 percent from the previous year's level of ₱117.702 billion.

Of the total insured, about ₱46.109 billion were in accounts with balances of ₱40,000 or less (fully protected) while ₱30.268 billion were in accounts with balances of over ₱40,000 (partially protected).

The number of deposit accounts reported as of the same period totalled 17.867 million. Of this number, about 96 percent or 17.111 million were in accounts not exceeding the insurance maximum of ₱40,000.

For the commercial banks, the Corporation's risk was estimated at 28.54 percent or ₱62.066 billion of their total deposits of ₱217.465 billion. In the case of thrift banks and rural banks, PDIC exposure amounted to about 53.32 percent or ₱10.006 billion and 78.46 percent or ₱4.068 billion, respectively.

Claims Payoff Activities

To protect depositors affected by bank closures, the Corporation in 1988 paid over 64,000 depositors their insured deposits amounting to ₱368.387 million in 93 closed banks and 219 branches nationwide.

Of the year's payments, about 90 percent or ₱330.099 million went to depositors of

Manilabank and PISO Development Bank, both closed in 1987. Other depositors serviced were those of Philippine Veterans Bank, Banco Filipino, PAIC Savings Bank, Banco Primero, and Development Bank of Rizal. The servicing of depositors of Banco Filipino was undertaken by the Philippine National Bank (PNB) which during the year paid ₱1.606 million out of funds provided by PDIC. To date total payments by PNB of Banco Filipino depositors have reached ₱699.688 million or 96.5% of total insured deposits.

Since 1970, the Corporation has serviced a total of 213 out of 232 banks that have been closed, paying a total of ₱2.859 billion in insured deposits to over a million depositors.

Notwithstanding the preference given to payoff operations over other activities of the Corporation, the Claims Department still lagged in its payment of insured deposits, both in banks recently closed and in banks where the 18-month prescriptive period for the filing of claims had already expired. At end-December 1988, some 600,000 depositors with estimated insured deposits of ₱2.345 billion in 475 banking offices were still to be served.

In 1988 PDIC devised a new system to expeditiously settle depositors' claims in closed banks and at the same time attain a more effective control of payments of insured deposits. Under the scheme there shall be two teams of Claim Agents - one to conduct verification of the insured deposits and the other to do the actual paying of the same. Two closed banks have been chosen pilot areas.

**PDIC PAYMENTS OF INSURED DEPOSITS IN CLOSED BANKS
For the Year 1988**

BANK GROUP	NO. OF OFFICES SERVICED		PDIC PAYMENTS	
	<u>Head Offices</u>	<u>Branches</u>	<u>No. of Accts.</u>	<u>Amount</u> (In million pesos)
Commercial Banks	2	92	39,228	325.473
Thrift Banks	24	122	7,054	14.242
Savings & Mortgage Banks	2	93	5,564	1.754
Private Development Banks	3	13	197	4.678
Stock Savings & Loan Banks	19	16	1,293	7.810
Rural Banks	67	5	18,572	28.672
ALL BANKS	93	219	64,854	368.387

Receivership/Liquidation Activities

Receivership of Banks

For the first time on December 9, 1988, the Monetary Board of the Central Bank designated the PDIC as receiver of four rural banks that were closed during the year. This takeover gave a foretaste of the enormous responsibility that PDIC would be facing when the Corporation fully assumes the task of receiver/liquidator of all closed banks.

The banks involved were the rural banks of Ballesteros (Cagayan), San Leonardo (Nueva

Ecija), Lazi (Siquijor), and San Francisco (Agusan del Sur), with aggregate deposit liabilities of ₱5.704 million at the time of their closing. As the year ended, the Corporation had already appointed Deputy Receivers from its Assets Recovery Unit to take over the assets, liabilities and affairs of the banks. They are assisted by experienced Bank Examiners from the Central Bank until PDIC has fully taken over in late 1989.

PDIC Claims for Subrogated Deposits in Closed Banks Under Liquidation

During the year, the PDIC filed claims for the payment of subrogated deposits against 14 savings and loan associations and two private development banks now under liquidation, amounting to ₱380.707 million. Pending claims for subrogated deposits with these banks totalled ₱29.265 million in 6,116 accounts at the end of the year.

Assessment and Examination Activities

For the year in review, the Corporation collected a total of ₱156.049 million in assessments from member banks. This represented an increase of 10.94 percent over last year's collection of ₱140.661 million.

Billings on accumulated assessment deficiencies including interest thereon amounting to ₱99.565 million yielded total collections of only ₱1.529 million in 1988. Assessment deficiencies of two branches of foreign banks amounting to ₱47.135 million are under litigation.

For the year 1988, the Assessment and Examination Department (AED) completed desk and field audits of 1,284 certified statements filed by commercial banks, thrift banks and rural banks. Aside from these audits, the AED also conducted special examinations of ten commercial banks and

five thrift banks with problem situations along with 21 rural banks whose applications for participation in the rehabilitation program under Circulars 1143, 1158 and 1172 were either denied or withdrawn by the Central Bank. Also, an inventory of Central Bank reports of examination was made to determine which banks had unsatisfactory financial condition. A statistical report on the financial status, loan portfolio, profitability, and other risk assets of commercial banks were submitted to management.

In a related development, the Corporation fined the officers and directors of a stock SLA for certain financial irregularities disclosed in special examinations, pursuant to Section 16(f) of the PDIC Law. It also recommended to the Chief Legal Counsel the adoption of legal steps for the termination of the insured status of two rural banks after it was found that these banks had engaged in unsafe and unsound banking practices or violation of laws.

Capping its activities for the year, the AED evaluated the request of a savings and loan bank to merge with four other stock savings and loan associations, pursuant to Section 16(c) of the PDIC Law which requires prior written consent of the Corporation before an insured bank can merge or consolidate with other banks. The Department also conducted a general examination of two commercial banks in line with management's objective of reactivating the examination function of PDIC.

Financial Assistance to Member Banks

PDIC is authorized under its Charter to grant financial assistance to member banks experiencing liquidity problems. This is done by making deposits in, granting loans to, or purchasing the assets of the bank.

On the basis of this authorization, the Corporation in 1988 granted a P400-million emergency financial assistance to a large bank to strengthen its capital position as it was negotiating with a group of investors for a takeover. The infusion of such assistance helped to solve the bank's immediate liquidity problem. The bank is now under the management of its new owners and its current liquidity position is stable.

A P70-million financial assistance previously granted to a savings and loan association in the Mindanao area has remained outstanding as of the end of the year. The assistance was granted in 1985 as liquidity support for the bank's rehabilitation program.

Meanwhile, the Corporation has started a study of the corporate profiles of other member banks, their problems and possible financial requirements. In fact, PDIC is already in the early stages of developing a comprehensive watchlist system.

Legal Activities

During most of 1988, the Corporation's Office of the Chief Legal Counsel (OCLC) collaborated with the Office of the Government Corporate Counsel (OGCC) in the prosecution, defense, trial, hearing, and preparation of pleadings and evidence in 35 civil actions involving two branches of foreign banks, four stock SLAs, and one rural bank.

Despite the inability of PDIC to hire lawyers to augment the OCLC Staff, the department answered some 342 queries involving payoff problems in 38 closed banks. Its opinion was also sought by the various departments of the Corporation mostly concerning corporate and personnel affairs. The OCLC plans to codify these opinions and other assessment and payoff decisions in 1989.

Other accomplishments for the period include the preparation of draft amendments to the PDIC Law for incorporation in bills now pending in both houses of Congress, and the preparation and notarization of PDIC contracts and agreements.

Management Services

In accordance with its function of improving and/or developing systems and procedures, the Management Services Office (MSO) continued its monitoring of the simplified accounting system in use since last year. The purpose of the monitoring work was to check on the effectiveness of the newly prescribed special books of accounts and to ensure timely and accurate preparation of the Corporation's financial statements.

Related to management information system, the MSO revised various forms and designed new ones to ensure accuracy and punctuality in the submission of reports. It also completed its organization manual and the work flow charts for the Accounting, Treasury and Assessment & Examination departments and MSO.

The Research arm of the MSO provided management with statistics on banks and deposit insurance required in planning and decision-making. It also submitted comments and information deemed necessary in the enactment of legislation on the PDIC. On the 25th anniversary of the Corporation, the Research sector prepared informational materials on the deposit insurance system for publication in the daily newspapers.

Accounting Activities

The implementation of the new accounting system which was introduced last 1987 was completed this year. The system was designed to further delineate responsibilities and to improve controls as well as enhance the efficiency of the Accounting Department.

During the year, the Department provided accounting services for the Corporation which included the preparation of monthly financial statements and weekly payrolls; the submission of reports required by NEDA and other government agencies; and the preparation of reconciliation statements for payoff deposit accounts.

Treasury Activities

The Treasury Department, which manages the Corporation's investment portfolio, made new placements in government securities amounting to ₱875.793 million and rolled over ₱1.329 billion in maturing government obligations during the year. The new placements came mainly from additional capital infusion amounting to ₱325.0 million in 1988.

Idle funds previously maintained in various savings accounts as stand-by cash for payoff purposes were recalled to PDIC for investment in high-yielding government securities. The Treasury Department planned the maturities of these investments to take advantage of higher rates while at the same time matching these with payoff fund requirements.

Related to the Corporation's program of diversification of total investment funds, the Treasury Department made studies on money market trends and investment strategies involving evaluations of investment opportunities. It also undertook the completion of the guidelines on the proposed payoff scheme whereby Disbursing Officers of the Treasury Department will be paying the claims for insured deposits processed and approved by Claim Agents.

Other Developments

World Bank Recommendations on the PDIC

In 1987, the Philippine government requested the World Bank for a report on the Philippine Financial sector. Said report was finished in August 1988 and accepted by the Philippine government for implementation. The report, among other things -

- a) stressed the need for an enlarged role for PDIC in the financial sector area, specifically in the supervision/examination of banks and the handling of distressed banks;
- b) recommended that PDIC be appointed as the mandatory receiver and liquidator of closed banks in view of the Central Bank's conflict of interest with respect to its role as conservator, receiver and liquidator of banks as well as PDIC's ultimate responsibility for paying insured deposits in these closed banks; and
- c) recommended that in order to perform these additional functions, PDIC's financial and manpower resources need to be strengthened substantially.

Study on Optional Additional Insurance Coverage and Risk-Based Premium Structure

As a follow-through to the first inter-agency ad hoc committee formed in 1987 to revitalize the Corporation, a second inter-agency committee was constituted under PDIC Board Resolution No. 55 dated March 15, 1988 to conduct a thorough and an exhaustive study on the facets of optional additional insurance coverage and risk-based premium structure.

The Committee started deliberations on July 7, 1988 and thereafter held regular meetings during which representatives of banking groups were invited to give their views and share their ideas relative to the study.

The concept of optional additional insurance considered by the Committee was to make available to depositors coverage of deposits beyond the mandated limit of ₱40,000. Under a system of risk-based premium structure, the amount of premium that a bank pays shall depend on the risk that the PDIC assumes in insuring the deposits.

As the year ended, the Committee was still formulating its recommendations to be submitted to the Board.

Relocation of PDIC Offices

Due to the burgeoning functions and personnel of the Corporation, the PDIC President created in 1988 a committee to look for a more suitable building for PDIC offices that could provide for better working facilities and adequate spaces for records, training, library, canteen, sports activities and parking.

Computerization

To ensure proper direction of its computerization program, a study to evaluate present and future data processing requirements was undertaken during the year preparatory to the acquisition of computer hardware and development of computer-based systems. The computerization of PDIC was launched in late 1988 with the installation of microcomputers and the identification of priority computer systems to be designed and developed in 1989.

Proposed Legislation

In cognizance of the urgent need to strengthen itself, the PDIC has drawn up certain proposals for incorporation in a bill now under consideration by the Senate. These proposals include:

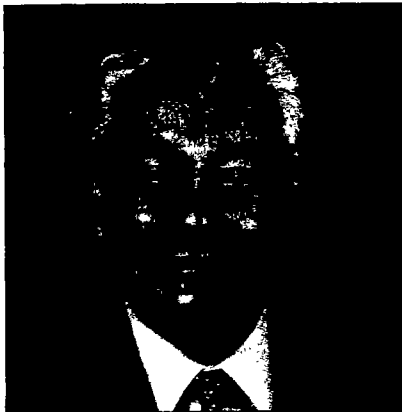
* Increase in the deposit insurance coverage from the present ₱40,000 to ₱60,000 per depositor. House Bill No. 7640 (already approved on third reading) wants the

coverage raised to ₱100,000 while Senate Bill No. 828 wants it at ₱50,000.

- * Increase in the permanent insurance fund from the present ₱2 billion to ₱5 billion. Senate Bill No. 828 is proposing an increase in PDIC's capitalization to ₱3 billion; the House wants it at status quo.
- * Authority to issue cease-and-desist orders (CDOs) on banks and their directors who are engaged in unsafe or unsound banking practices.
- * Mandatory appointment of the PDIC as receiver and/or liquidator of all closed banks. This function is currently exercised by the Central Bank.
- * Additional modes and grounds of financial assistance to troubled banks such as assumption of liabilities and purchase of shares of stocks.
- * Increase in the assessment rate to not more than 1/5 of 1 percent, from 1/12 of 1 percent provided by law.
- * Increase in the number of members of the PDIC board to five, with the Secretary of Finance as chairman. The other members of the proposed board are the Central Bank governor, the PDIC president, and two private sector representatives.
- * Additional authority for PDIC to enforce its laws and regulations.
- * Provision for the lowest lending rate as the basis for interest charges on loans from the Central Bank.

Management, Organization, and Personnel

Board of Directors



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



VITALIANO N. NAÑAGAS II
President, PDIC
Member

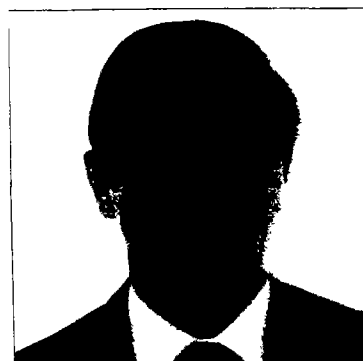


VICTOR C. MACALINCAG
Undersecretary of Finance
Member

Executive Officers



VITALIANO N. NAÑAGAS II
President



ISAYAS G. PENEYRA
Vice President

CONCEPCION M. RECTO
Assistant Vice President
Operations

ROSALINDA U. CASIGURAN
Chief Legal Counsel

ROBERTO R. GUEVARA
Systems Development Officer

LINDA B. GUSTILO
Manager, Claims Department

GRACIA A. ROSALINAS
Manager, Assessment and
Examination Department

EDUARDO P. SANTOS
Assistant Vice President
Corporate Services

CATHERINE F. BAMBÁ
Technical Assistant

ERNESTA C. BAROÑA
Manager Accounting Department

MA. ELENA E. BIENVENIDA
Manager, Treasury Department

ALBERTO R. ENRIQUEZ
Manager, Administrative Department

Management

Under R.A. No. 3591, as amended, the Central Bank governor is the chairman of the PDIC Board of Directors, with the PDIC president and a designated undersecretary of Finance as members.

At present, the Board is composed of CB Governor Jose B. Fernandez, Jr., PDIC President Vitaliano N. Nañagas II and Undersecretary of Finance Victor C. Macalincag.

Mr. Nañagas assumed the office of Corporation president on August 31, 1988 upon the retirement of Central Bank Deputy Governor Eugenio Nierras, Jr. who had been acting PDIC president since June 13, 1983.

Prior to his appointment at PDIC, Mr. Nañagas was Director for Marketing for the Latin American World Corporation group of Citibank, N.A. New York. He has degrees in Economics and Accounting from the De La Salle University and a Masters Degree in Business Management (with distinction) from the Asian Institute of Management.

Organization

The Corporate organizational structure in 1988 was essentially the same as in the previous year. However, supplementary units were created to improve efficiencies.

Created under PDIC Board Resolution No. 112, dated August 24, 1988 was the Head Office Claims Processing Unit under the Claims

Department, primarily responsible for the processing of pending claims filed with closed banks where the 18-month prescriptive period has already expired. Its secondary function is to process claims in closed banks where payoff operations have recessed. This is intended for expediency and improvement of service to the depositing public. The Treasury Department will henceforth be responsible for the actual payment of claims for insured deposits.

A special projects group was also created under the Office of the President headed by the Assistant Vice President for Corporate Services. The group handles the financial assistance program of the PDIC as well as the rehabilitation of banks which have PDIC exposure.

Personnel Complement

The payoffs in various closed banks, long hampered by lack of personnel to undertake such operations, have been greatly facilitated by the hiring of additional personnel in 1988.

During the year, some 64 professionals were hired to bring the total PDIC personnel complement to 232 at the close of the year. Of those hired, 47 were appointed to regular or permanent positions while 17 were appointed to casual positions. A majority of the new employees were assigned to the Claims Department to assist in payoff operations.

During the year, 50 employees were promoted to vacancies in the Corporation plantilla. These employees underwent a rigid

screening process before they were hired. Six regular employees and eight casual employees resigned from their positions during the year.

Still in the area of personnel, the PDIC Personnel Handbook and Qualification Standards Manual have been updated to incorporate new employee regulations and standards for recently created positions, respectively. The PDIC Performance Appraisal System has been revised for the purpose of improving employee efficiency and organizational effectiveness.

Training and Career Development

Training received a big boost in 1988 when management embarked on more intensive training programs to develop the capabilities of personnel as well as raise the level of productivity in the Corporation.

Ten employees chosen to compose the Electronic Data Processing Unit of the Corporation trained in computer programming and application from November 14 - 25, 1988 at the EDPC of the Central Bank of the Philippines. Following this, in December, all PDIC officers were provided basic computer literacy through familiarization sessions conducted in cooperation with the Information Management Department of the CBP.

With the incorporation of Management by Objectives (MBO) into its management policies, the Corporation had senior level officers attend seminar-workshops on the

subject that included determination of key result areas and performance standards, progress reviews, monitoring and feedback, planning, and performance appraisal.

Short-term seminars attended by PDIC officers and employees in 1988 were those on "Interpreting the Financial Statements of Financial Institutions," conducted by the Vice President/Group Head of the Financial Institutions section of Citibank, N.A.; and Leave Laws and Benefits and Appointments Preparation, conducted by the Civil Service Commission.

During the year, management re-issued the rules and regulations governing the implementation of the National Scholarship Fund for Development (NSFD) program established by Letter of Instruction No. 468 in 1977. Permanent employees of the PDIC who are desirous of completing professional or technological courses at the collegiate level or of pursuing higher studies were enjoined to participate in the program.

In connection with the preparation of the Training Calendar for 1989, the Administrative Department which handles and coordinates training programs requested all departments and offices of the Corporation to submit their training needs and requirements. However, the Corporation is giving emphasis to such courses as systems analysis and development, computer, examination of banks, receivership and liquidation of banks, insurance, financial analysis and accounts management, and handling of bank failures.

Financial Performance

Assets and Liabilities

The PDIC marked new financial performance levels in 1988 as it completed its 25th year of operation. Assets of the Corporation now totalled ₱5,718.455 million, reflecting an increase of 28.33 percent over the previous year's level of ₱4,455.887 million.

Assets acquired in bank assistance and deposit subrogated transactions comprised the bigger bulk of these assets, amounting to ₱3,486.656 million, or about 44.35 percent more than last year's total.

Improvement in liquidity is reflected in the growth of current assets from ₱942.628 million to ₱1,701.423 million, or by over 80 percent. It is Corporation policy to maintain adequate cash and liquid assets to meet all cash requirements for payoff and operating expenses. Other assets amounted to ₱514.804 million, of which ₱505 million represented the permanent insurance fund receivable from the national government.

The liabilities of the Corporation increased 70 percent from ₱1,875.029 million in 1987 to ₱3,186.976 million in 1988. A large portion consisted of borrowings from the Central Bank amounting to ₱2,240.0 million and accrued interest thereon amounting to ₱521.126 million, reflecting increases of 45.45 percent and 65.56 percent respectively from last year's levels.

The accelerated pace of payoff operations in 1988, which required huge outlays of payoff funds, strained to some extent the Corporation's deposit insurance fund. At year's end, this fund totalled ₱2,531.479 million, with reserve for insurance losses reflecting a drop of

about 10 percent to ₱500.447 million. An additional infusion of ₱325 million in government equity raised the Corporation's paid-up permanent insurance fund to ₱945.0 million. The PDIC has a total receivable from the national government of ₱1.055 million on the additional capitalization inclusive of ₱550.0 million due for release in 1989.

Income and Expense

Despite a 44.92 percent rise in expenses in 1988, the Corporation realized a profit of ₱6.191 million after deducting provisions for losses of ₱3.0 million.

A large portion of the Corporation's income for the year amounting to ₱238.077 million came from assessments which, during the year, rose by nearly 11 percent to ₱156.049 million. Interest earned on deposits and investments in Philippine government obligations increased 60.44 percent to ₱48.621 million.

The expenses for the year hit ₱228.885 million or about 96 percent of the year's income. The increase for the year reached ₱70.952 million or 44.92 percent from the previous year's expenses. Interest on Central Bank borrowings was the biggest expense item, accounting for over 90 percent of total expenses. From ₱139.690 million in 1987 interest expense rose to ₱206.354 million in 1988, or by 47.72 percent. Personal services increased 36.04 percent to ₱15.188 million level.

PDIC Financial Highlights

(Amounts in Million Pesos)

	<u>1988</u>	<u>1987</u>	CHANGE	
			<u>Amount</u>	<u>Percent</u>
FINANCIAL CONDITION				
Total Assets	₱ 5,718,455	₱ 4,455,888	₱ 1,262,567	28.330
Current Assets	1,701,423	942,628	758,795	80.500
Long-Term Investments	11,970	32,800	(20,830)	(63.510)
Assets Acquired in Bank Assistance & Deposit Subrogated Transactions	3,486,656	2,415,383	1,071,273	44.350
Property & Equipment	3,602	3,258	0,344	10.560
Other Assets	514,804	1,061,819	(547,015)	(51.520)
Total Liabilities and Deposit Insurance Fund	5,718,455	4,455,888	1,262,568	28.330
Total Liabilities	3,186,976	1,875,029	1,311,947	69.970
Current Liabilities	945,250	329,981	615,269	186.460
Long-Term Liabilities	2,240,000	1,540,000	700,000	45.450
Other Liabilities and Deferred Credits	1,726	5,048	(3,322)	(65.810)
Deposit Insurance Fund	2,531,479	2,580,858	(49,379)	(1.910)
Permanent Deposit Insurance Fund	2,000,000	2,000,000	-	-
Retained Earnings	31,032	23,559	7,473	31.720
Reserve for Insurance Losses	500,447	557,299	(56,852)	(10.200)
RESULTS OF OPERATION				
Total Income	₱ 238,076	₱ 189,125	₱ 48,951	25.880
Total Expenses	228,885	157,933	70,952	44.920
Operating Income Before Provision for Losses	9,191	31,192	(22,001)	(70.530)
Provision for Losses	3,000	26,000	(23,000)	(88.460)
Net Income	₱ <u>6,191</u>	₱ <u>5,192</u>	₱ <u>0,999</u>	<u>19,240</u>

Auditor's Certificate



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

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

We have examined in compliance with Section 2, Article IX-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 of December 31, 1988 and related statements of income and expenses and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly, included such test of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

During the year, there was a change in accounting policy as far as the treatment of deposit liabilities of closed banks is concerned, which the Corporation failed to recognize as liability by way of not taking up in its books, hence our audit exception for 1986 and 1987 financial statements.

In our opinion, the aforementioned financial statements present fairly the financial position of the corporation as at December 31, 1988, and the results of its operations and changes in its financial position for the year then ended, in conformity with applicable laws and regulations and generally accepted accounting principles applied on a consistent basis except for the change as stated in the second paragraph.


LEONARDO C. JAMORALIN
State Auditor IV

April 24, 1989

Financial Statements

Statement of Condition

December 31, 1988 and 1987

	<u>1988</u>	<u>1987</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash including Short-Term Time Deposits of ₱ 74,290,560 in 1988	₱ 78,980,946.95	₱ 13,607,879.62
Payoff Funds (Note 1)	26,899,836.03	305,062,109.37
Philippine Government Obligations	1,000,438,184.81	262,864,236.01
Permanent Insurance Fund Receivable	550,000,000.00	325,000,000.00
Accounts Receivable and Other Receivables	45,025,523.56	36,045,573.46
Inventory of Supplies and Materials	70,182.86	39,078.80
Prepaid Expenses	<u>8,723.89</u>	<u>8,723.89</u>
Total Current Assets	<u>₱ 1,701,423,398.10</u>	<u>942,627,601.15</u>
LONG-TERM INVESTMENTS		
Philippine Government Obligations	<u>11,970,000.00</u>	<u>32,800,000.00</u>
ASSETS ACQUIRED IN BANK ASSISTANCE AND DEPOSIT SUBROGATED TRANSACTIONS - Net of Estimated Insurance Losses of ₱ 149,314,525 in 1988 & ₱ 89,462,423 in 1987	<u>3,486,655,777.85</u>	<u>2,415,382,730.29</u>
PROPERTY AND EQUIPMENT - Net of Accumulated Depreciation	<u>3,602,095.15</u>	<u>3,257,999.75</u>
OTHER ASSETS (Note 2, 3 & 6 E)	<u>514,803,885.13</u>	<u>1,061,819,453.54</u>
TOTAL ASSETS	<u>₱ 5,718,455,156.23</u>	<u>₱ 4,455,887,784.73</u>

	<u>1988</u>	<u>1987</u>
<u>LIABILITIES AND DEPOSIT INSURANCE FUND</u>		
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accrued Interest Payable - Central Bank (Note 5)	P 521,126,484.91	P 314,772,119.63
Unearned Discount - Current Portion	68,857,466.00	-
Accounts Payable - PNB	-	13,281,678.72
Accounts Payable - Various	1,805,945.82	624,061.43
Due to Officers & Employees	1,911,163.20	1,235,043.66
Due to Payoff Funds	23,878.41	68,549.66
Estimated Subrogated Claims Filed Payable	169,416,481.86	-
Estimated Subrogated Claims Payable	182,108,476.88	-
	<u>945,249,897.08</u>	<u>329,981,453.10</u>
TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITY		
Notes Payable - Central Bank	<u>2,240,000,000.00</u>	<u>1,540,000,000.00</u>
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred Assessment Income	52,267.50	43,237.30
Unearned Discount - Net of Current Portion	506,539.95	3,837,765.10
Accounts Payable - Perpetual Savings Bank (Note 3)	1,000,000.00	1,000,000.00
Contingent Liabilities	167,028.95	167,028.95
	<u>1,725,836.40</u>	<u>5,048,031.35</u>
TOTAL OTHER LIABILITIES AND DEFERRED CREDITS		
TOTAL LIABILITIES	<u>3,186,975,733.48</u>	<u>1,875,029,484.45</u>
DEPOSIT INSURANCE FUND		
Permanent Insurance Fund	2,000,000,000.00	2,000,000,000.00
Retained Earnings	31,032,349.43	23,559,125.00
Reserve for Insurance Losses (Net)	500,447,073.32	557,299,175.00
	<u>2,531,479,422.75</u>	<u>2,580,858,300.28</u>
TOTAL DEPOSIT INSURANCE FUND	<u>2,531,479,422.75</u>	<u>2,580,858,300.28</u>
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND	<u>P 5,718,455,156.23</u>	<u>P 4,455,887,784.73</u>

Statement of Income and Retained Earnings

For the Years Ended December 31, 1988 and 1987

	1988	1987
INCOME		
Assessment Income	P 156,048,886.00	P 140,661,108.00
Interest Earned	48,621,037.00	30,305,067.00
Earned Discount	33,403,421.00	18,141,619.00
Miscellaneous Income	3,325.00	17,623.00
Total Income	<u>238,076,669.00</u>	<u>189,125,417.00</u>
EXPENSES		
Personal Services	15,188,516.00	11,164,536.00
Management Expenses	3,212,058.00	2,866,510.00
Property Expenses	788,175.00	806,638.00
Communications	330,756.00	290,217.00
Interest Expense	206,354,365.00	139,689,743.00
Travel - Local	2,676,685.00	2,730,452.00
Taxes	130,420.00	109,660.00
Others	204,326.00	275,565.00
Total Expenses	<u>228,885,301.00</u>	<u>157,933,321.00</u>
INCOME BEFORE PROVISION FOR INSURANCE LOSSES	9,191,368.00	31,192,096.00
PROVISION FOR INSURANCE LOSSES (Note 1)	3,000,000.00	26,000,000.00
NET INCOME	<u>6,191,368.00</u>	<u>5,192,096.00</u>
RETAINED EARNINGS, JANUARY 1	23,587,831.00	17,564,326.00
Add: Prior Year's Adjustments	1,253,151.00	831,409.00
RETAINED EARNINGS, DECEMBER 31	<u>P 31,032,350.00</u>	<u>P 23,587,831.00</u>

Changes in Components of Working Capital

	1988	1987
Increase (Decrease) in Current Assets:		
Cash in Bank	₱ 47,373,067.00	(₱195,116,846.00)
Payoff Funds	(260,162,343.00)	202,433,456.00
Permanent Insurance Fund Receivable	225,000,000.00	(175,000,000.00)
Due from Bureau of Internal Revenue	—	(10,387,959.00)
Accounts and Other Receivables	8,979,950.00	8,333,300.00
Philippine Government Obligations	737,573,949.00	257,325,366.00
Other Current Assets	38,931.00	(296,041.00)
Total	758,803,554.00	87,291,276.00
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Accrued Expenses	207,536,210.00	117,759,271.00
Due to (Accounts Payable) PNB	(13,281,679.00)	(110,433,768.00)
Unearned Discounts	68,857,466.00	—
Other Payables	667,952.00	781,781.00
Total	263,779,949.00	8,107,284.00
INCREASE IN WORKINGS CAPITAL	₱ 495,023,605.00	(₱ 79,183,992.00)

Statement of Changes in Financial Position

For the Years Ended December 31, 1988 and 1987

	1988	1987
WORKING CAPITAL WAS PROVIDED FROM		
Operations:		
Net Income (Inclusive of Prior Year's Adjustments) P	7,444,518.00	P 6,023,505.00
Add: Items Not Requiring Working Capital		
Depreciation	462,805.00	457,067.00
Provision for Insurance Losses	3,000,000.00	26,000,000.00
Total from Operations	10,907,323.00	32,480,572.00
Collection of Loans/Bank Assistance	—	713,319.00
Remittance by the National Treasury	550,000,000.00	25,000,000.00
Matured Securities Guaranteed by the Philippine Government	20,830,000.00	36,470,000.00
Long-Term Borrowings	700,000,000.00	620,000,000.00
Decrease in Other Assets	—	136,974.00
Increase in Other Liabilities	—	3,470,164.00
Total	P 1,281,737,323.00	P 718,271,029.00
WORKING CAPITAL WAS USED FOR		
Subrogated Claims Paid	P 381,854,042.00	P 634,779,561.00
Bank Assistance	399,258,150.00	—
Additions to Property and Equipment	806,900.00	241,685.00
Increase in Other Assets	1,472,432.00	4,000,000.00
Decrease in Other Liabilities	3,322,194.00	65,791.00
Total	786,713,718.00	639,087,037.00
INCREASE IN WORKING CAPITAL	P 495,023,605.00	P 79,183,992.00

Notes to the Statement of Condition

As of December 31, 1988

1. Cash with Claim Agents (Payoff), ₱ 1,222,275.96

The amount is broken down as follows:

a. Balance of claim agents' cash withdrawals from peso payoff savings accounts (based on their accountability report DL-4) and checks prepared to replace stale checks and/or to pay pending claims not yet reported as released to depositors by claim agents	₱ 626,078.90
b. Peso value of checks in foreign currency released by the Treasury Department to claim agents who have not yet paid them to depositors (₱29,143 45)	<u>596,197.06</u>
Total	<u>₱ 1,222,275.96</u>

Both the peso and foreign currency cash with claim agents are credited for the actual amount of releases/payments reflected as part of subrogated claims paid in the DL-4 report of the respective claim agents.

2. Permanent Insurance Fund Receivable, P1,055,000,000.00

The balance of ₱805 Million represents the total amount of unreleased equity contribution of the Government to the authorized capitalization of the PDIC scheduled from 1987 to 1990 in accordance with the request of PDIC and acknowledged by the late Honorable Minister of Finance Jaime Ongpin in his letter dated March 26, 1986.

	<u>Schedule of Releases</u>	<u>Actual Releases</u>	<u>Balance</u>
1987	₱ 500,000,000 00	₱ 200,000,000.00	₱ 300,000,000.00
1988	500,000,000.00	325,000,000.00	175,000,000.00
1989	500,000,000.00	-	250,000,000.00
1990	<u>80,000,000 00</u>	<u>-</u>	<u>80,000,000.00</u>
	₱ <u>1,580,000,000.00</u>	₱ <u>525,000,000.00</u>	<u>₱1,055,000,000.00</u>

Per information from the Treasury Department, the Department of Budget and Management (DBM) has budgeted for release to the PDIC in 1989 only ₱ 550 Million. Accordingly, the Permanent Insurance Fund Receivable is presented in the financial statements as of December 31, 1988 under the following captions

A. Current Assets:	
Permanent Insurance Fund Receivable	₱ 550,000,000.00
B. Other Assets:	
Permanent Insurance Fund Receivable	<u>505,000,000.00</u>
Total Permanent Insurance Fund Receivable	<u>₱ 1,055,000,000 00</u>

3. Advances to COMBANK, P1,500,000.00 per Schedule 16

The account represents advances to COMBANK for its redemption of Royal Savings Bank shares of stock from the Perpetual Savings Bank in accordance with the Tripartite agreement dated September 7, 1984. The amount of P 500,000.00 was paid in cash while P 1,000,000.00 is being temporarily carried as Accounts Payable, which amount will ultimately be set off against the subrogated claims paid by PDIC to the depositors of Perpetual Savings Bank.

The sale of COMBANK by the Government Service Insurance System (GSIS) to the new investors does not include investment with Royal Savings Bank (now Comsavings Bank). While the transfer has been approved by the GSIS and COMBANK, the documentation has not been perfected and is now the subject of verification by both the Central Bank and PDIC. This account is now reclassified under Other Assets.

4. Subrogated Claims Paid, P 2,809,350,010.04

The balance of the account does not include the amount of P52,372,802.44 representing the recovery of claims paid to the depositors of the following closed banks.

<u>Rehabilitated Banks (100% recovery)</u>	<u>Subrogated Claims Paid</u>
1. Continental Bank and Trust Company	P 28,852,102.83
2. General Bank and Trust Company	11,797,236.41
3. Agro-Industrial Development Bank	8,185,119.77
4. RB of Asingan (Pangasinan), Inc.	191,223.25
5. RB of ECLGA (Pangasinan), Inc.	17,751.94
6. RB of Estancia (Iloilo), Inc.	18,601.71
7. RB of Faire (Cagayan), Inc.	97.27
8. RB of Gabaldon (N.E.), Inc.	15,409.76
9. RB of Guimba (N.E.), Inc.	5,345.63
10. RB of La Carlota (Negros Occ.), Inc.	13,648.20
11. RB of Minalabao (Camarines Sur), Inc.	45,467.47
12. RB of Nabua (Camarines Sur), Inc.	2,252.12
13. RB of Odiongan (Romblon), Inc.	34,744.05
14. RB of Pasay City	3,842.62
15. RB of Pila (Laguna), Inc.	530,505.11
TOTAL	<u>P 49,713,348.14</u>
<u>Banks under Liquidation</u>	
1. Philippine National Cooperative Bank (52% recovery)	P 2,380,167.97
2. RB of Vigan (Ilocos Sur), Inc (82% recovery)	37,000.00
3. RB of Balagtas (Bulacan), Inc (100% recovery)	242,286.33
TOTAL	<u>P 2,659,454.30</u>
GRAND TOTAL	<u><u>P 52,372,802.44</u></u>

5. Accrued Interest Payable on CB Notes, P521,126,484.91

The balance of the accounts represents the total estimated interest on obligation to CB, broken down as follows:

	Total Amount of Loan Releases	Accrued Interest Based on Applicable Simple Average Rate* up to Dec. 31, 1988
a. Account No. 1	P 430,000,000.00	P 227,037,430.12
b. Account No. 2	1,340,000,000.00	250,530,287.70
c. Account No. 4	70,000,000.00	31,374,246.57
d. Account No. 5	400,000,000.00	12,184,520.52
	<u>P 2,240,000,000.00</u>	<u>P 521,126,484.91</u>

*Per MB Resolution No 1150, Minute No. 47 dated November 8, 1985, simple average interest rates on outstanding marketable and non-marketable securities, including Treasury Bills and Central Bank Bills during the preceding month the loans were granted/released.

6. OTHER NOTES

A. Funds Held in Trust under R.A 5517

In accordance with Statement of Condition as of December 31, 1988 of the Special Fund under R.A. 5517 submitted by the Assets Recovery Unit which maintains separate accounting of the Fund pursuant to PDIC Board Resolution No 12 dated August 28, 1986, the Trust Fund Assets consist of the following.

1. Cash in Bank	P 65,351.08
2. Investment in PGO	9,217,000.00
3. Accrued Interest on PGO	153,465.21
4. Subrogated Deposits	4,323,894.97
5. Office Equipment, Furniture & Fixtures	77,950.00
TOTAL TRUST FUND ASSETS	<u>P 13,837,661.26</u>

B. Bank Deficiencies - P 50,900,870.88

Deficiency billings outstanding as of December 31, 1988 and prior to 1988

C. Deficiency on Assessment - P 47,135,066.18

Deficiency Assessment under litigation:

Bank of America (Civil Case No 35480)	P 17,610,769.49
Citibank (Civil Case No. 33928)	29,524,296.69
	<u>P 47,135,066.18</u>

D. Estimated Subrogated Claims Filed

Out of P2,228,888,971.61 estimated liabilities for insured deposits, P351,524,958.74 is estimated to be covered by insurance, while P1,877,364,012.87 represents deposits of various government agencies with the Philippine Veterans Bank in excess of P40,000.00

E. Contingent Assets - P1,320,167.38

The balance of the account represents the total disallowances by the Commission on Audit for the following payments:

1. Unsettled disallowed payments on travel from January to May, 1985	P	506,782.18
2. Disallowed payments of subrogated claims	P	637,987.35
3. Disallowed payments to the Provident Fund		167,028.95
4. Unsettled disallowed payments for salaries and allowances		8,368.90
Total Contingent Assets as of December 31, 1988	P	<u>1,320,167.38</u>

After the issuance of E.O. 151, allowing national government corporations to continue the practice of paying travel allowance based on prior years' tradition, a request was made for the lifting of CSB's pursuant to PDIC Board Res. No. 3 dated January 26, 1988. PDIC is still waiting for COA's reconsideration.

The disallowances on subrogated claims paid were due to non-consolidation of various accounts allegedly through manipulation of deposit documents resulting in the overpayment of insured deposits in violation of Sec. 3(G) of R.A. 3591 as amended.

The balance of the Contingent Liabilities account of P167,028.95 represents the total amount of premiums paid to the PDIC Provident Fund which includes stabilization allowance and which was used as the bases of the 5% employees' share and corporation's share of 15% disallowed in audit under CSB issued by the COA Auditor. An appeal, however, was made since the stabilization allowance had become part of basic salary.

F. Exemptions of PDIC from Premium Tax

Pursuant to Ruling No. 074 of the Commissioner of BIR dated June 7, 1986, the PDIC is not subject to the premium tax imposed under section 223 of the Tax Code as amended.

7. Summary of Significant Accounting Policies

A. Valuation of Investments

Time deposits are shown at cost in the Statement of Condition. Securities and long-term investment on Philippine Government Obligations are booked at maturity value. The difference between maturity value and acquisition cost is amortized on a daily basis and recorded monthly over the life of the bonds on Treasury Bills.

B. Reserve for Insurance Losses

To meet the risks of bank failures and for the protection of depositors, an annual reserve has been provided against operations to augment the permanent insurance fund. Monthly reserve was provided from assessment earned after deducting operating expenses and desired income for the period. The provision has been accelerating for the past several years until 1985 when the annual provision was materially reduced due to the interest expense on heavy borrowings from Central Bank of the Philippines arising from the closure of Banco Filipino and the Veterans Bank. The average annual provision for the past eight years was computed to be approximately ₱61,420,000.00

C. Reserve for Losses on Subrogated Claims Paid and Estimated Insurance Losses

Starting 1986, under Board Resolution No. 156, valuation reserves for Insurance Losses on Subrogated Claims Paid were provided. An estimated 50% of Subrogated Claims Paid spread over a ten-year period was provided in order that the account may be presented fairly in the financial statements. Based on the outstanding Subrogated Claims Paid as of December 31, 1986, 1987 and 1988, 50% of estimated losses was spread over a ten-year period. For accounts pertaining to banks which have been closed for ten years as of December 31, 1986, the 50% provision for loss was spread over a period of five (5) years only.

For this purpose, the accounts "Reserve for Losses on Subrogated Claims Paid" and "Estimated Insurance Losses" were used. These accounts are presented in the Statement of Condition as deductions from "Subrogated Claims Paid" and "Reserve for Insurance Losses", respectively.

D. Depreciation of Fixed Assets

Fixed assets are carried in the books at acquisition cost. Subsequent additions are stated at cost.

Provision for depreciation is computed based on the straight-line method. Thus, cost is allocated over the estimated useful lives of the depreciable asset as follows:

Furnitures and Fixtures	5 years
Equipment	5 years
Building/Aircondition/Elevator	30 years
Toyota Crown	5 years

Expenditures for ordinary maintenance and repairs are charged directly against income as incurred; major repairs and betterments are capitalized. The original cost and accumulated depreciation of properties are eliminated from the account and the gain or loss from disposal is reflected as income.

E. Inventories

Inventories are stated at cost determined by the first-in, first-out method. Obsolete items are determined by a committee headed by the President or his authorized representative with a representative from the Commission on Audit as member.