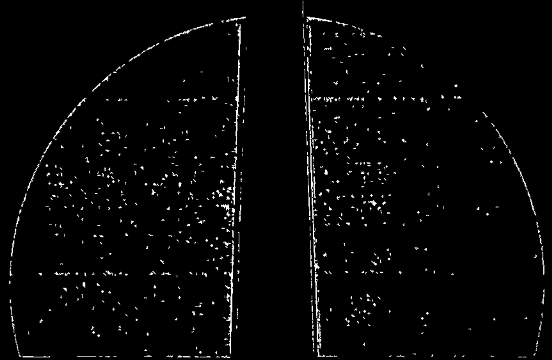
In the decade of growth



PHILIPPINE DEPOSIT INSURANCE CORPORATION

1989 ANNUAL REPORT

TABLE OF CONTENTS

PHI
1989

Her Excellency
President Corazon C. Aquino
Malacanang, Manila

Dear Mrs. President:

Allow me to thank you for the invaluable support and attention you have given the Corporation.

I have the honor to submit the Annual Report of the Philippine Deposit Insurance Corporation for the year 1989, pursuant to the provisions of Section 15 of Republic Act No. 3591, as amended. It chronicles our substantial achievements and the strategic directions the PDIC has embarked on to become more responsive to the call for sustained economic development.

We look forward to 1990, after having laid the cornerstones of a stronger and more significant deposit insurance system, when the PDIC forges ahead with realizing its mandate to enhance depositor confidence and ensure a more stable Philippine banking system.

Once more, on behalf of the management and staff of the PDIC, I express my gratitude and commitment to the depositing public and the banking system.

Very respectfully,

VITALIANO N. NANAGAS II
President

Honorable Jovito R. Salonga
President of the Senate
Manila

Dear Sir:

I have the honor to submit the Annual Report of the Philippine Deposit Insurance Corporation for the year 1989, pursuant to the provisions of Section 15 of Republic Act No. 3591, as amended.

Very respectfully,

VITALIANO N. NAÑAGAS II
President

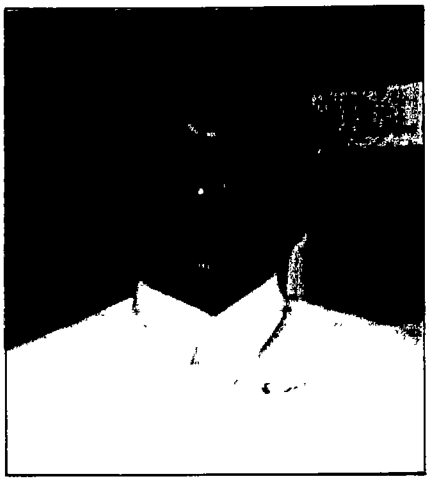
Honorable Ramon V. Mitra, Jr.
Speaker of the House of Representatives
Congress of the Philippines
Quezon City

Dear Sir:

I have the honor to submit the Annual Report of the Philippine Deposit Insurance Corporation for the year 1989, pursuant to the provisions of Section 15 of Republic Act No. 3591, as amended.

Very respectfully,

VITALIANO N. NAÑAGAS II
President



Message from the President

In retrospect, 1989 was the year when the foundations for a more relevant, responsive, and dynamic Philippine Deposit Insurance Corporation (PDIC) were laid.

In February 1989, the Corporation finalized the comprehensive Institutional Strengthening Program (ISP) or what is now the cornerstone of the expanded and more relevant PDIC. The ISP was then presented to and accepted by the Central Bank of the Philippines, the Department of Finance, other Philippine government agencies, and external agencies such as the World Bank.

In April 1989, the corporation formed an interagency Task Force to put together the implementing details of the ISP. The output of this Task Force was primarily an expanded organization, which defined the major roles and functions of each part of the Corporation.

The Corporation was divided into three major sectors: Examination, Assessment, and Insurance (EAI); Claims, Receivership, and Liquidation (CRL); and Corporate Services. Ancillary sectors were also created: Legal Services, to serve the purposes of litigation and serving legal queries; Special Services, for management support in planning, public relations and liaison, and electronic data processing. The offices for Special Investigations and Management Services for internal audit, systems, and procedures were also set up.

Enhancing manpower quality and capability became an important and key ingredient.

Training and development programs were intensified in order to continually upgrade existing skills and impart new ones to all employees. In 1989, for the first time, all employees benefited from at least one training seminar.

A meritocracy was installed. As against last year when more than 80% obtained a rating between excellent and very satisfactory, forced ranking has become a basis for performance appraisal. Merit increases have been based on a bell curved distribution.

Professional and quality standards became essential features of the recruitment program currently being implemented. Corollary to this, we gave the option of voluntary retirement through a separation incentive plan for those who did not wish to continue their careers with the Corporation.

These plans were approved for implementation by our Board of Directors, the Civil Service Commission, and the Department of Budget and Management.

In early September, I presented to Her Excellency, President Corazon C. Aquino, the accomplishments of the first twelve months of my tenure and the strategic directions that the Corporation has charted for itself. After the presentation, President Aquino expressed support for the ISP and committed to certify the PDIC Bill as urgent.

With the President's endorsement and the support of the government agencies mentioned, we right away began to implement the ISP and the new organizational structure.

Our first concern was to prepare the present crop of management and staff. The Assessment Center, that was facilitated by the Development Academy of the Philippines, evaluated the managerial skills of incumbent employees and helped prepare them for growing responsibilities.

Then, in October 1989, we were informed of the approval of a World Bank grant of US$1.76 million financed by the Japanese Export-Import Bank Facility. Hence, more funds for intensive human resource development and systems and technology upgrading became available.

PDIC had to be more physically prepared. The purchase of a larger building for PDIC was arranged to prepare for a rapidly growing work force from 250 to 800. The procurement of more computer units helped to expedite manual and routine tasks in accounting, statistical, and clerical work. Linked area networks were conceptualized.

Internal and external communications were released by the Planning Department. Providing relevant economic intelligence and technical services through external publications will help mobilize the country's savings and promote professional maturity in banking. The newsletter will also enhance interpersonal and management-staff relations in the Corporation.

There were also major policy and systems developments. The Modified Payoff Systems Manual will allow us to settle insured claims within six months of a bank's closure. Other modified systems will enable the Corporation to assume receivership/liquidation of all closed banks by 1991 and develop early warning systems that will monitor individual and sectoral bank health.

Research and development has been focused on the causes of bank closures and the means of preventing them. Financial assistance has been designed to meet varying causes and conditions of bank distress.

Presently, two liquidity pools are operational and four are being finalized. Seven others are being formed. These pools have set the pace for risk management techniques that encourage self-help and self-initiative among banks rather than government support. Hence, more liquidity pools will be encouraged and similar innovations to meet the needs of member banks shall be devised.

Our work in 1989 reflected our priority of introducing strategic changes that have a long-term and lasting impact on the Corporation. However, we did not stop there. There were in fact milestone achievements.

As the institution that insures deposits, PDIC managed to settle all its pending claims in closed banks as of December 31, 1988 before 1989 elapsed. At present, 6,017 accounts amounting to about P12.7 million are awaiting their claimants.

As an institution that prevents bank closures and strengthens financial institutions, it has become more active:

1. Financial assistance of close to P1 billion was provided to distressed banks.
2. Information on financial schemes available to the countryside was disseminated for rural banks and entrepreneurs.
3. The Corporation has also revived its functions which it was incapable of performing before due to lack of trained manpower. General examinations were conducted on two commercial banks, two thrift banks, and one rural bank. Special examinations were also made on five commercial banks.
4. Six closed rural banks were placed under PDIC's custody: three under receivership and three under liquidation.

These achievements are but a glimpse of things to come. After having laid the foundations, PDIC now moves ahead to fully implement these changes in 1990, so that in 1991, only fine adjustments and maintenance will be necessary.

On behalf of the management and staff, we thank everyone who, in one way or another, has contributed to last year's accomplishments and invite you to share in our hopes and aspirations for a better and more relevant PDIC.

VITALIANO N. NAÑAGAS II
President

Reflecting on the Past

The Sixties and Seventies

On June 22, 1963, the Philippine Deposit Insurance Corporation (PDIC) was created by virtue of Republic Act 3591 and was mandated to insure deposit liabilities of Philippine banks. From the start, it had the vital role of fostering public confidence in the Philippine banking system.

It grew in importance as bank closures increased in number and severity. As such, amendments to the Charter had first to be instituted before it could respond effectively.

In 1969, the year when a commercial bank closed for the first time, PDIC was given greater authority. Membership became compulsory for all banks. The Corporation had the power to examine banks simultaneously with the Central Bank of the Philippines (CB) and impose penalties on violations of advertising policies. Moreover, it was appointed to act as receiver of closed banks.

Likewise, the government had to beef up PDIC's resources to meet the needs of the times. The Permanent Insurance Fund (PIF) was first set at P5 million in 1964, then raised to P20 million when a second commercial bank closed in 1973. Lending facilities from the CB were accessed to enable PDIC to extend financial assistance to ailing banks. An assessment rate pegged at 1/12 of one percent of the covered deposit base, with the minimum charge set at P250, enabled the Corporation to generate some steady revenue to cover operating costs.

In the mid-1970s, double-digit inflation caused by oil price shocks and other economic adversities called for adjustments in deposit insurance coverage. In 1963, only peso deposits amounting to P10,000 were covered. Foreign currency deposits, payable in the currency that was deposited, were included in insurance coverage in 1972. Eventually, deposit insurance coverage grew to P15,000 in 1978 when a third commercial bank failed.

The Turbulent Eighties

PDIC shared its most difficult years with the financial system, as well as the economy. From 1963 until 1983, 94 banks closed. However, from 1984 to 1988, 194 more failed. More than half of bank failures in the past quarter century occurred in just those five years.

Repaying the claims of depositors of these financial institutions drained the PDIC's resources. Before 1983, deposits in all past bank failures amounted to P776 million. In stark contrast, the bank closures that took place between 1984 and 1985 involved over P7 billion of deposits. Adding to the load was inflation, which hit as high as 60%. A higher deposit insurance coverage of P40,000 was needed. The P20 million PIF became grossly insufficient to surmount the crisis. The Charter was amended and the fund was raised to P2 billion in 1985.

PDIC had to grapple with the dilemma of ensuring its survival, as well as the banking system's. In 1985, when funds were urgently needed, only P120 million of the government's P2 billion commitment to increase the PIF was actually paid. Thus, the Corporation incurred huge borrowings from the CB in order to meet its insurance obligations.

Despite the odds, PDIC survived and helped the banking system recover, though at staggering costs. It still suffers from outstanding obligations to the CB. Loan repayments and related expenses continue to burden the Corporation's reserves.

Rebuilding Itself

In 1987, the Philippine government requested the World Bank to conduct a Sectoral Study with the aim of improving the operations and stability of the financial systems. It was completed in August 1988 and contained comments and policy recommendations for PDIC, among others. In sum, the report called for:

1. a greater role for PDIC in the supervision and examination of financial institutions and the handling of distressed banks.
2. the appointment of PDIC as the mandatory receiver and liquidator of closed banks, in view of the CB's conflict of interest with respect to its role as conservator, receiver, and liquidator of banks and the ultimate responsibility of the PDIC to pay the insured deposits of closed banks.
3. the infusion of substantial financial and human resources so that it can perform the necessary expanded functions.

On August 31, 1988, in that same month the report was submitted, Mr. Vitaliano N. Nanagas II was sworn in as the Corporation's third president. With a renewed mandate, the present administration immediately took steps in preparing the Corporation to assume a larger role in the financial system.

Policies, systems, and procedures were streamlined and improved. Thus, backlogs in payoffs of insured deposits were identified and efforts to trim these have been effective. Investment policies were formulated to optimize the yield of liquid assets.

Furthermore, blueprints for an Institutional Strengthening Program, which contained an agenda for expansion, were drawn up with the help of other government agencies and external consultants. However, plans had to be coordinated with legislation.

Last January, President Corazon C. Aquino certified Senate Bill 947 as urgent which is currently under second reading. The amendments in the proposed Bill are consistent with the policy direction of the present PDIC administration. It will seek to:

1. *Raise deposit coverage from P40,000 to P60,000.* That way, more accounts can be covered in response to public clamor and depositor protection.
2. *Appoint PDIC as receiver/liquidator of banks.* This will widen the menu of options to take, reduce the costs of delays in closures, maximize the recovery of assets, and allow faster repayment of insured deposits. At the same time, it will eliminate the existing conflict of interest of the CB.
3. *Increase the maximum assessment rate from 1/12 of one percent to at most 1/5 of one percent.* This provision spells more revenues, greater liquidity, and a wider cushion for accommodating losses from bank closures. This can also be considered as the private sector's contribution in enabling PDIC to be self-sufficient and operationally viable.
4. *Add modes and grounds for financial assistance.* These would call for extending loans, depositing money, and obtaining the power to purchase shares of an ailing bank. This way, the Corporation can take on a proactive role in preventing bank closures of distressed financial institutions whose closures may be debilitating to the entire economy.
5. *Increase the PIF from P2 billion to P5 billion.* The amount can alleviate the burdensome repayment to the CB. A substantial PIF will certainly ensure the Corporation's long term viability.
6. *Grant authority to issue cease and desist orders, conduct legal investigations into unsound banking practices, terminate the insured status of banks, and litigate those engaging in criminal banking activities.* Since PDIC is a major stakeholder in the stability of all Philippine banks and because of the impact that bank closures have on the entire economy, it must have legal means to prevent abuse and protect its interests and that of society.

PDIC has felt the need to be more active in developing the banking industry and, ultimately, the economy. At the turn of the decade, the Corporation finds itself once more at the crossroads. Although the economy has rapidly recovered and the number and severity of bank closures have been dramatically reduced, the Corporation cannot wait for another crisis before assuming its rightful responsibilities in the financial system.

Its time is now.

Gearing for the Nineties and Beyond

Vision, Mission, and Beliefs

PDIC defines its vision as being a Corporation that is:

- Financially, organizationally, and functionally independent;
- Operationally responsive to the depositors, member banks, and Philippine economic development; and
- Professionally managed while maintaining its concern for the welfare of the officers and staff.

PDIC's Corporate Mission is to:

- Promote and strengthen the Philippine Banking System through the timely, effective, and efficient
  - -- Monitoring of the banking system,
  - -- Examination of the member banks, and
  - -- Handling of financial assistance.
- Maintain and foster greater public confidence in the Philippine Banking System through:
  - -- Adequate deposit insurance protection,
  - -- Prompt and expedient claims processing and payment,
  - -- Efficient and effective management of the receivership/liquidation function,
  - -- Judicious rehabilitation of closed banks, and the
  - -- Dissemination of information on these missions.

PDIC's fundamental beliefs are that:

- Exemplary public service in the pursuit of our mission is a basic foundation of PDIC's ability to contribute to national development;
- Professionalism, teamwork, and resourcefulness are the best means to accomplish our mission;
- Improvement of PDIC's product/service delivery system is a continuous endeavor;
- Our people are the most important resource.

Strategic Directions

In terms of strategic directions, the PDIC will vigorously realize its vision and pursue its mission based on shared values its people hold dear.

Professional and Human Development

As the Corporation embarks on more activities and assumes greater responsibilities, human resource development will be of utmost importance. More training and career development activities that impart new skills and upgrade existing ones will be needed. Values formation will be an important topic to be incorporated in the strategic planning seminar for officers early in 1990. Productivity incentives will also be formulated and instituted to help boost employee morale.

Greater Financial Viability and Depositor Protection

PDIC expects to be free of all financial obligations to the CB and build up its Permanent Insurance Fund to a sufficient level. A more stable earnings base of assessment premiums and investment policies will be generated to ensure that depositors are adequately protected in cases of bank closures. That way, the Corporation shall viably carry out its mandated functions.

Expeditious Settlement of Depositors' Claims

The Corporation's efficiency will be the depositors' warrant of trust in banks. Hence, the PDIC intends to start pre-payoff operations immediately after the takeover of the closed banks and undertake the actual payoff of insured deposits within six months after the bank's closure.

Verified claims for the payment of insured deposits shall be paid as they are filed. Other claims which may need further verification shall be settled within three months from date of filing.

Appropriate training in the use of information technology will also increase the efficiency and effectivity of field assignments.

Management of Receivership and Liquidation Functions

PDIC shall be responsible for the speedy receivership and liquidation of closed banks which would result in minimal losses to creditors and investors in closed banks. By the year 1991, the PDIC hopes to commence and get custody of all 250 closed banks.

Rehabilitation of Distressed Banks

The ultimate aim is to close a bank by Friday and open it under PDIC's management by the following Monday. The speedy rehabilitation of failing banks would further enhance creditors' and investors' confidence in the banking system.

Quality Examination of Banks

In this effort, the Corporation will be coordinating with the Central Bank. PDIC will develop techniques to look more closely into the financial condition of banks, detect potential problems, and propose remedial measures.

One way is by assessing the banking environment on a provincial/regional level since socio-economic and climatic conditions vary.

Another is to develop more effective investigative techniques to spot and prevent fraud and unsound banking practices.

Timely Assistance to Distressed Banks

PDIC will not only deposit or extend loans to distressed banks. Hopefully, it will be able to infuse equity by purchasing assets and assuming liabilities of ailing banks.

There will be stronger support for self-help/self-policing forms of risk management. The creation of liquidity pools through tie-ups with Land Bank and bank federations is just a beginning.

More pools and other means that promote the principle of private initiative in financial risk reduction will be developed and encouraged.

Innovations

PDIC will conduct research and engage in special services that promote stable banking and balanced economic development. This will be in line with the Corporation's vision.

Providing economic intelligence on finance and development issues through the Corporation's regular publications is one.

Formulating technical assistance such as financial templates that will help impart financial management and professional ethics in banking, especially in small countryside institutions, is another.

In other words, the quest for improvement in our services through research and development efforts will be continuous.

PDIC in the Environment

The Philippine Deposit Insurance Corporation (PDIC) prides itself in playing an influential role in economic development through the stability of the banking system.

An indispensable ingredient in business and economic activity is capital formation. Savings is the most effective means of accumulating funds needed for financing personal and corporate spending and investments. The larger the savings base of a country, therefore, the stronger its economy becomes.

Banks are the most effective means of mobilizing these savings into investments and loans. Leaving extra cash idle in wallets and secret compartments leaves savings easy prey to inflation and theft.

However, banks cannot generate the needed savings for investment and production and pay depositors' interest without winning the public trust and confidence. History has shown that the PDIC's role is to enhance that trust and confidence, regardless of the environmental conditions.

The Economy

As the economy shifted from consumption-driven to investment-led growth, the increase in Gross Domestic Product (GDP) slowed from 6.2% in 1988 to 5.98%. The share of consumption remained at 73.8% but capital formation grew from 15.76% in 1988 to 17.25%.

The GDP growth rate, however, was still respectable, considering that the population grew by only 2.34% and that investments have struck unprecedented levels. Having investment as the impetus of growth meant expanding productive capacity, opening more jobs for a growing work force, and bolstering household incomes further to follow up a perked-up domestic market.

Despite the typhoons and the nationwide logging ban, agriculture still grew by a hefty 4.02%. Industry output increased by a robust 7.10%, fuelled by an intensified demand for manufactures, construction, and utilities. Likewise, the service sector expanded by 6.42%, spurred by stronger commerce, trading, retail merchandising, and a boom in finance and housing.

However, sustaining modest growth levels had its sacrifices. Liberalization policies raised imports by 22.49%, thus outpacing export growth of 11.73%. The result was a yawning trade gap of P2,576 million, compared to last year's surplus of P261 million. Net outflow of income to the rest of the world also grew from P348 million to P807 million.

These deficits gnawed at the Central Bank of the Philippines's gross international reserves until it became barely enough to finance two months' imports. So strong was the pressure on the peso, its value dwindled by 5.97%, from P21.09 at the end of 1988 to P22.35.

Double-digit inflation reared its ugly head again, averaging 10.6% and capping the year at 14.1%. Other than the trade gap, payment outflows, and currency depreciation, raising the minimum wage and the costs of fuel, both by as much as 20-25%, were largely the culprits.

Monetary authorities actively pursued their liquidity-mopping operations by raising Treasury bill yields and reserve requirements. Thus, prime rates were hitting 18-20% while non-prime borrowers had to settle with interest as high as 28%. Only after the coup sent investment jitters did lending rates drop back to 16-20%.

Moral suasion and reduced Treasury bill rates helped do the trick. It also showed the monetary authorities' degree of influence on the costs of doing business.

Banking and Finance

Banking and finance were by no means deprived of the fruits of growth. The sustained consumer boom, the downshift to investments, the vengeful rebound of construction and real estate, and the hefty export-import performance gave banking and finance more business than the previous years.

The capital markets were resplendent, breaking price and volume records in both Manila and Makati stock exchanges. International securities underwriters, brokers, and traders showed keen interest in joining the fray as companies made a beeline for new issues and listings.

Hence, although it was not spared from the difficulties of rising business costs, banking and finance remained lucrative. The threat of bank failure was not imminent among large institutions.

However, regulations set by the monetary authorities raised the barriers to entry and stirred competition.

Capital requirements for commercial banks were increased from P300 million to P500 million. Correspondingly, unibanks must now have a capital base of P1 billion when previously, P500 million was needed. It was the year when big became beautiful.

Thrift banks also lost their cost advantage over commercial banks when their required reserve levels were raised. From then on savings and mortage, private development, and stock savings and loan institutions had to compete on equal spreads for lending.

Rural banks had mixed fates, depending on their location. Rice and corn rich provinces in Mindanao cashed in on increased subsidies and the slack brought about by adverse weather in Luzon. Sugar farming regions, likewise, enjoyed sustained high prices due to a strong internal market.

Newly industrializing regions over the country, like Central and Southern Luzon, Western and Central Visayas, and Northern and Southern Mindanao had the chance to generate more accounts from depositors that earned more steady wage-incomes and to extend financial services to small start-up enterprises.

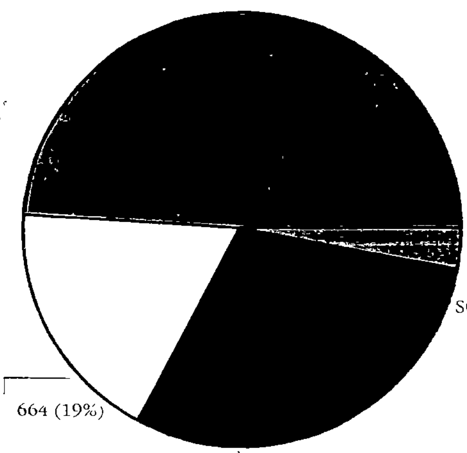
However, there were calamity-stricken areas and regions that were overly exposed to the production of ramie, prawns, coconut, and other crops that experienced price slumps in the international market. As expected, it had been the banks in these places which required the Corporation's close attention.

Insurance Activity

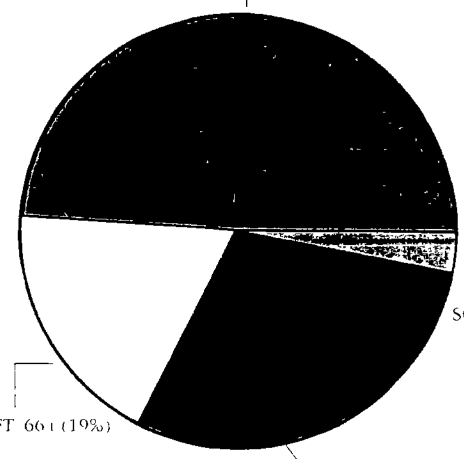
Membership

Membership classified by bank group ~~are~~ is shown in the charts below:

December 31, 1988



December 31, 1989



The number of member banks fell in 1989 when the monetary authorities closed 14 rural banks for insolvency. They were:

1. RB of Basilan (Basilan City),
2. RB of Nampicuan (Nueva Ecija),
3. RB of Dipaculao (Aurora),
4. RB of Aparri (Cagayan),
5. RBof Tuao (Cagayan),
6. RB of Talavera (Nueva Ecija),
7. RB of Ipil (Zamboanga del Sur),
8. RB of Badoc (Ilocos Sur),
9. RB of Plaridel (Quezon),
10. RB of San Esteban (Ilocos Sur),
11. RB of Palompon (Leyte),
12. RB of Umingan (Pangasinan),
13. RB of Sta. Ana (Pampanga), and
14. RB of Macabebe (Pampanga).

Nineteen new branches opened in 1989, among them:

8 commercial banks,
7 savings and mortgage banks,
3 rural banks, and
1 specialized government bank.

Most of the new offices are situated in the provincial areas as the Central Bank continued to restrict the opening of branches within the Metro Manila. On the other hand, three branches of SSLAs ceased operations in 1989.

PDIC Risk Exposure

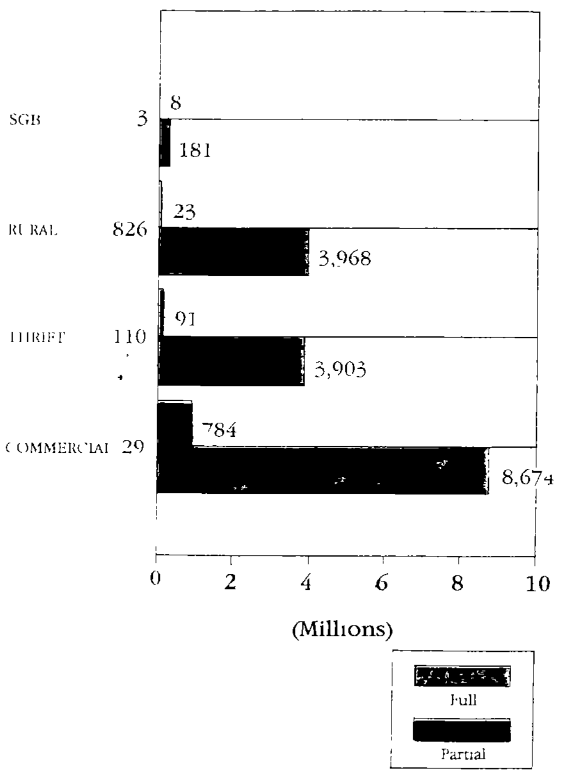
At the end of 1989, PDIC carried a potential risk of P82.635 billion in insuring the deposits of 968 banks. The estimated amount of insured deposits represented about 28.3% of the banks' total deposit liabilities of P292.172 billion.

Bank accounts numbered approximately 17.632 million, of which about 95% are within the P40,000 insurance limit.

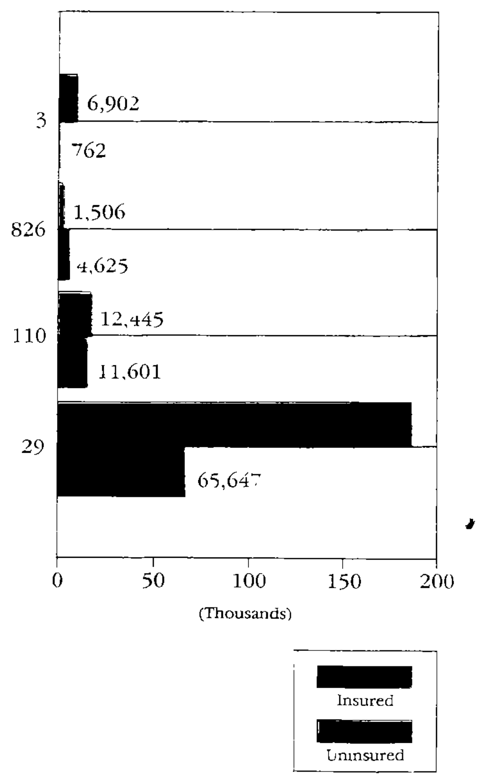
In sum, the corporation's risk exposure by the end of the year had been as follows.

PDIC Risk Exposure

Number of Accounts



Amount in Million



Enhanced Functional Efficiency

Since the PDIC believes in exemplary public service, the enhancement of its functions was a hallmark for 1989.

Claims Payoff and Liquidation Activities

New systems in payoff procedures were put in place in 1989. They have effectively speeded up the processing and payment of deposit insurance claims and, simultaneously, installed appropriate management controls.

Through the Modified Payoff Operations (MPO) scheme, payoffs are now performed by authorized Disbursing Officers of the Treasury Department. Another improvement was the head office claims processing unit (HOCPU), which was primarily responsible for processing pending claims dated as of the prescriptive date for filing. Another of HOCPU's functions is the processing of claims when payoff operations are recessed.

As a result of these improvements, the Corporation in 1989 paid a total of P23.714 million insured deposit claims involving 9,580 accounts in 147 closed banks and their respective offices and branches nationwide.

About P10.469 million in 4,459 accounts was disbursed under the MPO scheme undertaken by the Treasury Department in both prescribed and non-prescribed banks. Some 4,582 accounts involving P12.457 million in 57 banks and 79 of their branches were paid by the Claims Department, while 539 accounts amounting to P789 thousand represented payments made by both PNB and PDIC to depositors of Banco Filipino.

Unsettled claims have also been appropriately classified. As of December 31, 1989, pending claims numbered 76,715 accounts amounting to P1.933 billion.

Of the pending claims, 14,406 accounts amounting P106.0 million are problematic with missing or incomplete documentation and unfulfilled requirements.

Some 44,899 accounts amounting to P1,805.5 million have been referred to the Legal Department and are awaiting resolution.

Meanwhile, there are still 6,017 accounts reaching P12.7 million waiting to be claimed.

Furthermore, the Corporation has filed claims against two banks under liquidation for subrogated deposits aggregating P5.190 million.

Also, a total of 28,126 claims/accounts paid in the closed Philippine Veterans Bank have been verified preparatory to the filing of claims for subrogated deposits.

On record, PDIC's cumulative payments have been massive.

Bank Group	Number of Banks Serviced	Number of Branches	PDIC PAYMENTS No. of Accounts	Amount (P million)
Commercial Banks	5	141	236,472	958,789
Thrift Banks				
SMBs	3	101	444,692	780,972
PDBs	5	25	31,959	172,646
SSLAs	26	58	201,067	758,786
Rural Banks	182	9	156,175	214,788
Total	221	334	1,070,365	2,885,981

Since it started payoff in 1970 at the closed Rural Bank of Nabua (Camarines Sur), PDIC has paid insured deposit claims totalling P2.886 billion in over 1.07 million accounts.

Thrift banks comprised the bulk of these payments amounting to P1.712 billion in 677,718 accounts; the commercial banks, P958.789 million in 236,472 accounts; and the rural banks, P214.788 million in 156,175 accounts.

Examination and Assessment

The Assessment & Examination Department improved considerably its collection of assessment premiums by garnering the aggregate amount of P197.423 million, higher than last year's by 26.5%. This is broken down by bank group, as follows:

		(In P thousands)
Commercial Banks		175,277
Thrift Banks:		16,810
SMBs	10,274	
PDBs	4,296	
SSLAs	2,240	
Rural Banks		4,572
Assessments received in 1989 applicable to previous years		764
Total:		197,423 % + P/R ?

Stepped-up efforts at collecting assessment deficiencies garnered the Corporation a total of P55.091 million from delinquent banks. The collection, however, was still short of the P118.146 million insurance premium deficiencies remaining outstanding as of the end of the year. plus cost of money?

As part of the PDIC's new thrust in scanning the health of individual banks, the AED conducted special examinations of four thrift institutions with problem situations for possible asset purchase/liability assumption or financial assistance. General examinations were also conducted on four commercial banks, three SSLAs, and one rural bank to determine their solvency and liquidity. As required by the Charter, the examinations were conducted simultaneously with the Central Bank.

Other major activities of the AED during the year in review include the following:

- Field audit of certified statements of deposit insurance assessments of 13 commercial banks, four thrift banks, and one specialized government bank;
- Desk audit of 2,048 certified statements filed by thrift banks and rural banks against a target of only 800 certified statements;
- Evaluation of the requests for merger of twelve rural banks in Misamis Oriental and another three rural banks in the same province, pursuant to 16(c) of R.A. 3591;
- Establishment of information center for commercial banks, thrift banks and rural banks to facilitate compliance with PDIC reporting requirements;
- Monitoring compliance with the PDIC requirement on advertisement of bank membership; ?
- Participation in the organization of liquidity pools among rural banks; and
- Provision of technical assistance to member banks regarding accomplishment of certified statements and problems encountered in audit.

Legal Developments

The Office of the Chief Legal Counsel (OCLC) rendered some 163 legal opinions during the year, dealing for the most part on the affairs of the Corporation and personnel matter. Noteworthy are the following:

Preferential right of PDIC on subrogated claims, under section 10(d) of R.A. 3591, as amended;

Mode of releasing check payment by registered mail;

Review of present implementation of maximum deposit protection on joint accounts and ITF deposits;

Early retirement and voluntary separation under RA 6683; and

Entitlement to anniversary bonus and medical dependent allowance of employees with pending administrative cases.

On the matter of wrongful payments of insured deposits, the OCLC has recovered P46 thousand representing overpayments made by Claim Agents in payoffs.

On other legal developments, the OCLC collaborated with the Office of Government Corporate Counsel (OGCC) in the handling of 39 cases and successfully terminated two of three administrative cases filed last year.

Systems, Procedures, and Policies

Ideally, day-to-day activities do not have to be planned. Systems and procedures have been enhanced and set in place to ensure smooth daily operations and monitor their efficiency and correctness.

Systems

Greater attention was devoted last year to reviewing and refining accounting systems and procedures to make them an effective means of planning and internal control.

Accounting and operating forms were revised for greater economy and cost effectiveness. The revised forms included petty cash, computerized regular payroll, purchase order, disbursement voucher, and daily cash position.

Technology Upgrade

Accounting and administrative activities done manually are in the process of being computerized.

Payroll processing is the first to have been completed. Other systems to be finalized are the general ledger, budgeting, claims, and personnel.

To prepare for the eventual expansion of PDIC's information technology needs, a linked area network that utilizes personal computers has been conceptualized.

Manuals

An Internal Audit Manual was also prepared and compiled which standardized procedures in the audit of corporate transactions.

Much groundwork has been laid in preparing manuals on the standard operating procedures on the examination of operating banks and the claims, receivership, and liquidation of closed banks. Payoff rules and regulations are in the process of being codified.

Moreover, to prevent anomalies or irregularities in the handling of payoff funds by Claim Agents and Disbursing Officers, the Corporation also started audits and inspections in closed banks with ongoing payoff operations.

PDIC Organization, Management, and Personnel

PDIC Personnel

As of December 31, 1989, the Corporation's personnel force totalled 234, classified into:

Career Service:	
First Level	101
Second Level	
Division Chiefs	13
Technical/Professional	66
Third Level	15
Total Career Service	195
Non-Career Service.	
Casuals	38
Co-Terminus	1
Total	39
Grand Total	234

Also during that year, seven employees resigned from their positions, three were dismissed, and four were separated due to reduction in force.

Institutional Strengthening Program

A management committee has completed a study on the Corporation's organization structure that took into account future changes based on projected growth of the Corporation.

However, the Institutional Strengthening Program (ISP) has not yet been fully implemented. As of this date, Senate Bill 947, which has been certified by President Corazon C. Aquino as urgent last January, is on its second reading.

New Plantilla

Last ~~Ausut~~ August, the Department of Budget and Management (DBM) approved the new plantilla of positions drawn up by the Corporation relative to its forthcoming reorganization. The DBM's stipulation was that putting the new plantilla into effect shall be fully funded from PDIC's corporate funds and will not require budgetary support from the national government.

Management

In 1989, the management of the Corporation remained in the able hands of its board of directors composed of the Central Bank Governor Jose B. Fernandez, Jr.*, PDIC President Vitaliano N. Nanagas II, and Finance Undersecretary Victor C. Macalincag.

In line with the ISP, there were a number of new appointees to beef up the management and staff of PDIC.

Nievelena V. Rosete was appointed Senior Vice President last August. She has had extensive experience as a Commissioner in the Presidential Commission on Good Government (PCGG) and as a working Fellow at the Development Academy of the Philippines (DAP). Her fields of expertise are institutional and human resource development, financial and administrative systems development, and the management of public enterprise. Mrs. Rosete's outstanding qualifications, her concern for the individual, and solid commitment to public service provide new strength to the Corporation.

Eleanor B. Lopez was appointed Special Assistant to the President at about the same time. Ms. Lopez was formerly with the PCGG as Personnel Officer. Before that, she was with the DAP and the Career Executive Service Board. Her fields of expertise are in the areas of research, organizational and human resource development, and personnel management.

Catherine F. Bamba assumed the position of Technical Assistant in the Office of the President early in January. Ms. Bamba, a certified public accountant, had been with Citibank, N.A. where she was a Control Officer covering the audit of the institutional, consumer, and investment operations of the bank.

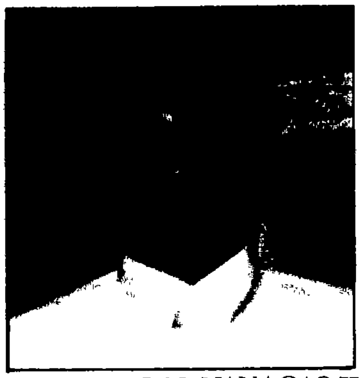
Joffre V. Balce was appointed Technical Assistant in the Office of the President in the middle of the year. Before joining PDIC, Mr. Balce was an Economist of the Center for Research and Communication (CRC) where he conducted industrial and regional studies, lectured on economics, authored articles on labor, investment, finance, and development, and managed CRC South's communications in Visayas and Mindanao.

* Governor Jose L. Cuisia succeeded Governor J. B. Fernandez on February 20, 1990

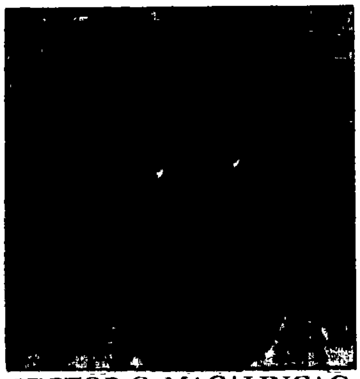
Management

BOARD OF DIRECTORS

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

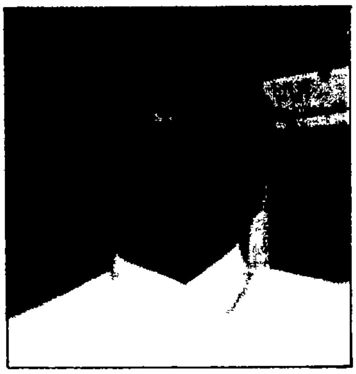


VITALIANO N. NANAGAS II
President,
Philippine Deposit Insurance Corporation
Vice Chairman



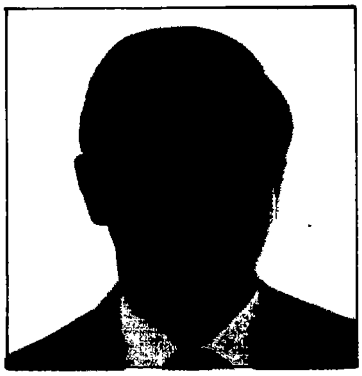
VICTOR C. MACALINCAG
Undersecretary,
Department of Finance
Member

EXECUTIVE OFFICERS



VITALIANO N. NANAGAS II
President

NIEVELENA V. ROSETE
Senior Vice President



ISAYAS G. PENEYRA
Vice President

CONCEPCION M. RECTO
Assistant Vice-President
Operations

ROSALINDA U. CASIGURAN
Chief Legal Counsel

ERNESTA C. BARONA
Manager
Accounting Department

ALBERTO R. ENRIQUEZ
Manager
Administrative Department

LINDA B. GUSTILO
Manager
Claims Department

JOFFRE V. BALCE
Technical Assistant

EDUARDO P. SANTOS
Assistant Vice-President
Corporate Services

ELEANOR B. LOPEZ
Special Assistant to the President

MA. ELENA E. BIENVENIDA
Manager
Treasury Department

ROBERTO R. GUEVARA
Systems Development Officer
Management Services Office

GRACIA A. ROSALINAS
Manager
Assessment and Examination Department

CATHERINE F. BAMBA
Technical Assistant

Human Resource Development

Since its people are its most important resource, the PDIC gave more attention to improving the welfare of its employees by providing career advancement to the deserving and opportunities to acquire new skills and brush up on old ones.

Recruitment and Career Advancement Criteria

Aspirants for career advancement went through the Assessment Center during the third quarter. Facilitated by the Development Academy of the Philippines, the Center was designed to identify the person's strengths and weaknesses, developmental areas, and additional skills necessary for them to assume greater responsibilities.

Training

Last year, the Corporation emphasized training of employees in skills necessary when the PDIC embarks on new activities under its expanded functions. A total of 16 training programs were arranged by the Corporation where nearly all its officers and employees benefited.

In addition, an orientation seminar accompanying the induction of new employees was conducted to inform them about the PDIC, about rules, procedures and practices that will affect them, and also about the job on which they will work.

Another welcome development, the PDIC obtained a $2 million grant from Japanese Eximbank and World Bank. A substantial portion of the grant is committed to training people in key areas of operation like examination of banks, receivership, and the handling of bank failures.

Employee Benefits Program

The provision of benefits to employees continued to rank high in the Corporation's program for 1989. Benefits granted include the following:

- A Separation Incentive Plan (SIP) has been drawn up providing for additional benefits to employees who want to leave the PDIC either through retirement or resignation. The SIP is open to all officers and employees in the regular plantilla with at least 10 years of service in PDIC as of September 15, 1989.
- A Productivity Incentive Award to PDIC officers and employees was also implemented during the year.
- The Corporation enrolled all newly hired employees in the Group Accident Insurance with the Government Service Insurance System (GSIS).
- Casual employees were also recipients of the following benefits:
  a) COLA equivalent to 40% of basic salary or P300/month whichever is higher;
  b) Amelioration allowance of 10% of basic salary or P150/month whichever is higher; and
  c) Children's allowance of P30 per child, not to exceed four children.

Nevertheless, management continues to keep its compensation package and benefits in line with those provided by other government financial institutions.

Improving PDIC's product and service delivery systems is indeed a continuing process. Innovation becomes, therefore, indispensable.

Closure Prevention

Bank closures can be debilitating. The larger the size of a failed bank, the more far-reaching are its economic consequences. Hence, the PDIC has committed itself to prevent bank closure whenever possible and feasible.

Financial Assistance

Over P1 billion in funds for assisting financially distressed banks whose closures would have had a serious effect on their community, if not on the entire economy, had been made available.

Early in 1989, another commercial bank sought the PDIC's assistance in beefing up its capital position. The Corporation's Special Projects Group (SPG), after reviewing and evaluating the bank's financial condition, recommended to the Board the granting of financial assistance.

By the end of the year, the bank has already availed of P400 million out of the P600 million credit facility granted to the commercial bank.

On this matter, the Corporation coordinated closely with the representatives of the recipient banks regarding their compliance with the agreed terms and conditions of the assistance package and the guidelines on implementation of CB-approved rehabilitation programs.

Liquidity Pools

The most significant innovation in 1989 that has directly contributed to stability in the rural banking system is the liquidity pool.

Rural banks in a province contribute a portion of their liquid assets, which the Land Bank of the Philippines will match peso-for-peso. During emergencies, member banks can tap their pool which is placed in government securities. The PDIC acts as the ready buyer for their instrument at their market value and a provider of additional assistance when the pool is inadequate.

However, there are strict qualifications for membership in the pool. First is common acceptance by peers. That way, the presence of reputable and respectable rural banks adds prestige and enhances confidence.

In an extreme emergency, a qualification in applying for direct PDIC assistance is a commitment to follow a program based on rural bank improvement criteria (RBIC) arrived at by the bank and the Corporation. RBICs enforce professional management and give the

PDIC concrete means of monitoring a bank's health.

So far, two liquidity pools have been formed by 29 RBs in Davao and 25 in Pangasinan. Cagayan Valley provinces, Bulacan, Batangas, and Pampanga have made plans to form their own pools. Iloilo and Misamis Oriental have, likewise, expressed a serious interest in the idea.

In 1990, the Corporation will look closely into other mechanisms for self-help/self-policing/self-initiating techniques for risk management.

Economic Intelligence

For generations up to this very day, much of our countrymen, especially in the rural areas, are estranged from the mainstream of national development. Because of the commitment to ultimately contribute to national progress, the Corporation aims at producing information that is relevant in promoting balanced agro-industrial economic development to its member banks.

PDIC Communique

The *Communique* started as a semestral publication that discusses socio-economic issues in countryside finance and development. It also reviews the trends in the different banking sectors and provides quarterly data on deposit levels.

In 1990, the publication will be released quarterly.

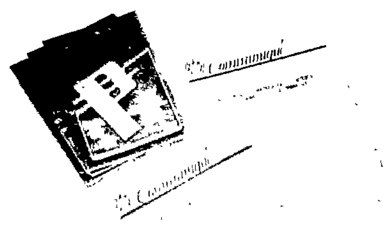
Financial Schemes Available to the Philippine Countryside

Last year, 26 financial schemes available to cottage, small, and medium scale enterprises in the countryside were compiled and published. Each of the schemes was discussed according to the amount of credit available, the size of loans that could be extended, the terms and conditions, and the implementing agencies that could be approached.

However, because these programs undergo changes over time, *Financial Schemes* will be updated through annual editions.

Financial Templates

Just as engineers have templates from which to draw appropriate designs, the PDIC has conceptualized financial templates from which thrift and rural banks could plan their businesses more lucratively. Basically, the templates would guide banks in managing their assets and liabilities and diversifying their accounts to increase returns and reduce risks.



Financial Strengthening

Financial Performance

The PDIC ended the year with a net income of P10.338 million from total revenues of P471.313 million -- a marked improvement of 67% over P6.191 million in 1988. The bulk of earnings generated came from assessments which totalled P197.423 million -- a 26.5% increase over the previous year.

Financial income consisting of interest earned on investments in government securities and on deposits amounted to P273.879 million as against the previous year's P82.024 million. Other sources brought an additional P0.011 million into the corporation's coffers.

PDIC expenses of P460.975 million rose by P229.088 million or 98.8% over the previous year, with provision for insurance losses rising from P3 million to P140 million. An increase in interest expense on Central Bank notes was also noted, from P206.354 million to P279.814 million, up by 35.6%. Operating expenses went up to P41.159 million due to increased expenses for personal services.

Resources

The Corporation achieved an overall expansion in total assets by P908 million or 16%, to reach P6.627 billion at the end of the year. This growth occured chiefly in current assets which gained P1.010 billion or 59%, to P2.711 billion.

Subrogated claims paid (net of allowance for losses) rose 5% to P2.83 billion. This amount does not include subrogated claims paid in rehabilitated banks and banks under liquidation which came to a total of P57.032 million at year's end.

Long-term investments in government securities fell by P3.8 million from last year's P11.97 million. Other assets of the Corporation comprised a receivable of P12.085 million mostly from the Provident Fund.

The liabilities of P4.019 billion at the end of the year included P2.640 billion in obligations which PDIC incurred to settle the claims of depositors in closed banks and the credit lines obtained to assist banks in precarious financial position. Accrued interest on these obligations amounted to P800.978 million at year's end. Liabilities for insured deposits consisted of pending claims amounting to P378.679 million.

by the end of the year, PDIC's deposit insurance fund (DIF) of P2.608 billion was bolstered by reserve for insurance losses of P575.744 million and retained earnings of P32.118 million. At the current level, the DIF is about 3% of the total insured deposits held by the banking system.

PHILIPPINE DEPOSIT INSURANCE CORPORATION

Financial Highlights

(Amounts in million pesos)

FINANCIAL CONDITIONS

	1989	1988	Amount	Percent
Total Assets	**P6,626.95**	P5,718.45	908.49	15.89%
Current Assets	**2,711.45**	1,701.42	1,010.02	59.36%
Long-term Investment	**8.17**	11.97	(3.80)	-31.75%
Assets Acquired in Bank Assistance and Subrogated Deposits	**3,889.64**	3,486.66	402.99	11.56%
Property and Equipment	**5.60**	3.60	2.00	55.44%
Other Assets	**12.09**	514.80	(502.72)	-97.65%
Total Liabilities	**P4,019.08**	P3,186.98	832.11	26.11%
Current Liabilities	**1,377.79**	945.25	832.11	26.11%
Long-term Liabilities	**2,640.00**	2,240.00	400.00	17.86%
Other Liabilities and Deferred Credits	**1.29**	1.73	(0.43)	-25.09%
Deposit Insurance Fund	**P2,607.86**	P2,531.48	76.38	3.02%
Permanent Insurance Fund	**2,000.00**	2,000.00	--o0o--	--o0o--
Retained Earnings	**32.12**	31.03	1.09	3.50%
Reserve for Insurance Losses	**575.74**	500.45	75.30	15.05%

RESULTS OF OPERATIONS

	1989	1988	Amount	Percent
Total Income	**P471.31**	P238.08	P233.23	97.97%
Total Expenses	**320.98**	228.89	92.09	40.23%
Operating Income Before Provision for Losses	**150.34**	9.19	141.15	1,535.70%
Less: Provision for Losses	**140.00**	3.00	137.00	4,566.67%
Net Income	**10.34**	6.19	4.15	66.97%

PHILIPPINE DEPOSIT INSURANCE CORPORATION

Consolidated Statement of Condition*

(Amounts in thousand pesos)

	1989	1988
CURRENT ASSETS	**P2,711,446.84**	P1,701,423.40
Cash, including Short-term Deposits	**87,487.25**	78,980.95
Payoff Funds (Note 1)	**10,797.43**	26,899.84
Philippine Government Obligations	**2,050,384.59**	1,000,438.18
Permanent Insurance Fund Receivable (Note 2)	**505,000.00**	550,000.00
Accounts Receivable and Other Supplies	**57,523.61**	45,025.52
Inventory of Supplies and Materials	**135.38**	70.18
Prepaid Expenses	**118.58**	8.72
LONG-TERM INVESTMENTS		
Philippine Government Obligations	8,170.00	11,970.00
ASSETS ACQUIRED IN BANK ASSISTANCE AND DEPOSIT SUBROGATED TRANSACTIONS Net of Estimated INSURANCE LOSSES of P214,017.41 million in 1989 and P149,314.53 million in 1988.	3,889,643.63	3,486,655.78
PROPERTY AND EQUIPMENT Net of Accumulated Depreciation	5,599.38	3,602.10
OTHER ASSETS	12,084.86	514,803.89
TOTAL ASSETS	6,626,944.71	5,718,455.16
	=========	=========

*Unaudited

PHILIPPINE DEPOSIT INSURANCE CORPORATION

Consolidated Statement of Condition

(Amounts in thousand pesos)

	1989	1988
CURRENT LIABILITIES	P 1,377,788.60	P 945,249.90
Accrued Interest Payable Central Bank (Note 5)	800,977.77	521,126.48
Unearned Discounts -- Current Portion	177,181.31	68,857.47
Accounts Payable -- Philippine National Bank	306.09	-o0o-
Accounts Payable -- Various Creditors	4,494.40	1,805.95
Due to Officers and Employees	16,124.88	1,911.16
Due to Payoff Funds	24.53	23.88
Estimated Subrogated Claims Filed Payable (Note 6d)	177,638.17	169,416.48
Estimated Subrogated Claims Payable (Note 6d)	201,041.45	182,108.48
LONG-TERM LIABILITIES		
Notes Payable (Note 6)	2,640,000.00	2,240,000.00
OTHER LIABILITIES AND DEFERRED CREDITS	1,293.37	1,725.84
Deferred Assessment Income	42.71	52.27
Unearned Discount -- Net of Current Portion	250.66	506.54
Accounts Payable -- Perpetual Savings Bank (Note 3)	1,000.00	1,000.00
Contingent Liabilities		
TOTAL LIABILITIES	4,019,081.97	3,186,975.74
DEPOSIT INSURANCE FUND	2,607,862.72	2,531,479.42
Permanent Insurance Fund	2,000,000.00	2,000,000.00
Retained Earnings	32,118.53	31,032.35
Allowance for Insurance Losses (Net)	575,744.19	500,447.07
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND	6,626,944.69	5,718,455.16

PHILIPPINE DEPOSIT INSURANCE CORPORATION

Income and Retained Earnings

(Amounts in thousand pesos)

	1989	1988
INCOME	P471,312.54	P238,076.68
Assessment Income	197,422.82	156,048.89
Interest Earned	91,231.32	48,621.04
Earned Discounts	182,647.55	33,403.42
Miscellaneous Income	10.85	3.33
EXPENSES	320,973.56	228,885.33
Personal Services	32,111.25	15,188.52
Management Expenses	5,312.09	3,212.06
Property Expenses	1,021.57	788.18
Communications	379.27	330.76
Interest Expenses	279,814.11	206,354.37
Travel -- Local	2,030.41	2,676.69
Taxes	146.87	130.42
Others	157.99	204.33
INCOME BEFORE PROVISION FOR INSURANCE LOSSES	150,338.98	9,191.35
PROVISION FOR INSURANCE LOSSES	140,000.00	3,000.00
NET INCOME	10,338.98	6,191.35
RETAINED EARNINGS, JANUARY 1	29,879.21	23,587.83
Add: Prior Year's Adjustment	(P 8,099.67)	P 1,253.15
RETAINED EARNINGS, DECEMBER 31	P 32,118.52	P 31,032.33

PHILIPPINE DEPOSIT INSURANCE CORPORATION

Changes in Components of Working Capital

(Amounts in thousand pesos)

	1989	1988
INCREASE (DECREASE) IN CURRENT ASSETS:	P1,010,023.79	P758,803.56
Cash in Bank	8,506.65	47,373.07
Payoff Funds	(16,102.41)	(260,162.34)
Permanent Insurance Fund Receivable	(45,000.00)	225,000.00
Accounts and Other Receivables	12,498.09	8,979.95
Philippine Government Obligations	1,049,946.41	737,573.95
Other Current Assets	175.05	38.93
INCREASE (DECREASE) IN CURRENT LIABILITIES	405,384.07	263,779.95
Accounts Payable and Accrued Expenses	282,539.75	207,536.21
Due to (Accounts Payable) Philippine National Bank	306.09	(13,281.68)
Unearned Discounts	108,323.85	68,857.47
Other Payables	14,214.38	67.95
INCREASE (DECREASED) IN WORKING CAPITAL	604,639.72	495,023.61

KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK
(Philippine Deposit Insurance Corporation)

NOTES TO THE STATEMENT OF CONDITION
As of December 31, 1989

1. **Cash with Claim Agents (Payoff)** P 83,456.18

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.

P 67,715.95

b. Peso value of checks in foreign currency released by the Treasury Department to claim agents who have not yet paid them to depositors ($ 769.58).

15,740.23

Total P 83,456.18

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** P 505,000,000.00

Out of the P1,580 Million equity contribution of the government to the authorized capitalization of the PDIC scheduled for release from 1987 to 1990, only P1,075 Million has been actually released and the balance of P505 Million represents the total amount of unreleased equity.

3. **Advances to COMBANK, P1,500,000.00**

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 P500,000.00 was paid in cash while P1,000,000.00 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, P2,830,373,783.28**

The balance of the account does not include the amount of P57,032,236.96 representing the recovery of claims paid to the depositors of the following closed banks.

Rehabilitated Bank (100% recovery)	Subrogated Claims Paid
Continental Bank and Trust Company	P 28,852,102.83
General Bank and Trust Company	11,797,236.41
Agro-Industrial Development Bank	8,185,119.77
RB of Asingan (Pangasinan), Inc.	191,223.25
RB of ECLGA (Pangasinan), Inc.	17,751.94
RB of Estancia (Iloilo), Inc.	18,601.71
RB of Faire (Cagayan), Inc.	97.27
RB of Gabaldon (N.E.), Inc.	15,409.76
RB of Guimba (N.E.), Inc.	5,345.63
RB of La Carlota (Negros Occ.), Inc	13,648.20
RB of Minalabac(Camarines Sur), Inc	45,467.47
RB of Nabua (Camarines Sur), Inc.	2,252.12
RBo of Odiongan (Romblon), Inc.	34,744.05
RB of Panitan (Capiz)	103.37
CRB of Pasay City	3,842.62
RB of Pila (Laguna), Inc.	530,505.11
Total	P 49,713,451.51

Banks under Liquidation

Philippine National Cooperative Bank (100% recovery)	₱ 6,736,916.69
RB of Vigan (Ilocos Sur), Inc (100% recovery)	44,870 43
RB of Balagtas (Bulacan), Inc. (100% recovery)	242,286.33
RB of Buruanga (Aklan), Inc. (77% recovery)	294,712.00
Total	₱ 7,318,785.45
TOTAL	₱ 57,032,236.96

5. **Interest Payable on CB Notes** **₱800,977,773.93**

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

		Total Amount of Loan Releases (In Millions)	Accrued Interest Based on Applicable Simple Average Rate* up to December 31, 1989
a.	Account No. 1	₱ 430 M	₱. 287,151,430.12
b.	Account No. 2	1,340 M	405,032,587.70
c.	Account No. 4	70 M	44,806,542.45
d.	Account No. 5	400 M	47,189,408.18
e.	Account No. 6	400 M	16,797,805.48
		₱ 2,640 M	₱ 800,977,773.93

*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 preceeding month the loans were granted/released.

6. **Other Notes**

A. **Funds Held in Trust under R.A. 5517**

In accordance with the Statement of Condition as of December 31, 1989 of the Special Fund under R.A. 5517 prepared from the books separately maintained in the Accounting Department pursuant to PDIC Board Resolution No. 89-09-103 dated September 4, 1989, the Trust Fund Assets consisted of the following:

1.	Cash in Bank	₱ 19,947.47
2.	Investment in PGO	10,253,000.00
3.	Accrued Interest on PGO	132,459.99
4.	Due from PDIC	60,672.10
5.	Subrogated Deposits	4,323,894.97
6.	Office Equipment, Furniture & Fixtures	77,950.00
	TOTAL TRUST FUND ASSETS	₱ 14,928,594.63

B. **Bank Deficiencies – ₱ 83,911,522.94**

Deficiency billings outstanding as of December 31, 1989 and prior to 1988.

C. **Deficiency on Assessment – ₱ 64,301,757.74**

Deficiency assessment under litigation·

(Civil Case No. 35480)	₱ 29,609,178.16
(Civil Case No. 33928)	34,692,579.58
	₱ 64,301,757.74

D. **Estimated Subrogated Claims**

The liabilities of PDIC for insured deposits as of December 31, 1989 consisted of:

1.	Pending claims of depositors in prescribed banks	₱ 177,638,166.98
2.	Unserviced insured deposits in prescribed banks	201,041,452.20
	TOTAL AMOUNT COVERED BY INSURANCE	₱ 378,679,619.18

E. Contingent Assets – P 1,126,493.66

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 488,506.31
2.	Disallowed payments on subrogated claims	637,987.35
	TOTAL CONTINGENT ASSETS AS OF DECEMBER 31, 1989	P 1,126,493.66

After the issuance of E.O. 151, allowing national and 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 thru manipulation of deposit documents resulting in the overpayment of insured deposits in violation of Sec. 3 (G) of R.A. 3591 as amended.

F. Exemption 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 investments 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 or Treasury Bills.

B. Allowance for Insurance Losses

To meet the risks of bank failures and for the protection of depositors, an annual reserve has been consistently 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 interest expense on heavy borrowings from the Central Bank of the Philippines arising from the closure of Banco Filipino and the Philippine Veterans Bank.The reserve provided for the past eight years has an annual average of P 65,261,780.00.

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

Starting 1986, under Board Resolution No. 156, valuation reserves for Insurance Losses for 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, 1988 and 1989, 50% estimated losses was spread over a ten-year period except for accounts pertaining to banks which have been closed for ten years as of December 31, 1986 which 50% provision for loss was spread over a period of only five (5) years.

For this purpose, the accounts "Allowance for Losses on Subrogated Claims Paid" and "Estimated Insurance Losses" were used. These accounts are deductions from "Subrogated Claims Paid" and "Allowance for Insurance Losses," respectively.

D. Depreciation of Fixed Assets

Fixed assets are substantially carried at acquisition cost. Subsequent additions are stated at cost.

Depreciation on cost is computed on the straight-line method over the estimated useful lives of the depreciable assets ranging from.

Furniture and Fixtures	5 – 10 years
Equipment	5 – 10 years
Building/Aircondition/Elevator	– 30 years
Toyota Corolla (2)	– 5 years
Nissan Bida Jeepney	– 5 years

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

E. Inventories

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

PHILIPPINE DEPOSIT INSURANCE CORPORATION
TABLE OF ORGANIZAITON