

Strengthening public confidence in the banking system

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Philippine Deposit Insurance Corporation

Annual Report 1990



PHILIPPINE DEPOSIT INSURANCE CORPORATION

May 31, 1991

*Her Excellency
President Corazon C. Aquino
Malacañang, Manila*

Dear Mrs. President:

Before anything, allow me to thank Her Excellency for the invaluable support and interest over the developments in the Philippine Deposit Insurance Corporation (PDIC).

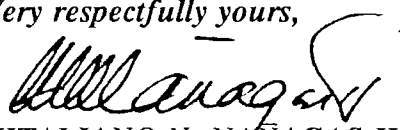
I have the honor to submit the Annual Report of the Philippine Deposit Insurance Corporation for the year 1990, pursuant to the provisions of Section 15 of Republic Act 3591, as amended.

This 1990 Report serves as testimony of the management and staff's endeavors at assuming more responsibilities under our Institutional Strengthening Program.

We move on towards 1991 and beyond to build, upon the strong structure and solid foundation, a formidable institution that encourages domestic savings, strengthens the Philippine banking system, and promotes resilient economic development.

With the PDIC management and staff, I thank Her Excellency and reaffirm our support in contributing to national progress.

Very respectfully yours,


VITALIANO N. NANAGAS II
President



PHILIPPINE DEPOSIT INSURANCE CORPORATION

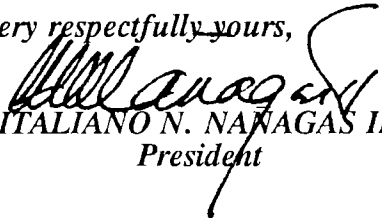
May 31, 1991

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

Dear Sir:

I have the honor to submit the PDIC Annual Report for the year 1990, pursuant to the provisions of Section 15 of Republic Act 3591, as amended.

Very respectfully yours,


VITALIANO N. NANAGAS II
President



PHILIPPINE DEPOSIT INSURANCE CORPORATION

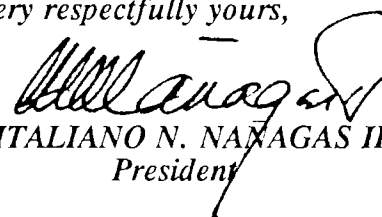
May 31, 1991


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

Dear Sir:

I have the honor to submit the PDIC Annual Report for the year 1990, pursuant to the provisions of Section 15 of Republic Act 3591, as amended.

Very respectfully yours,


VITALIANO N. NANAGAS II
President



For the Philippine Deposit Insurance Corporation (PDIC), 1990 marked the start of growth, relevance, and greater participation in the task of national development. Concrete actions and results made these beginnings manifest.

Early that year, the officers and staff embarked on a partnership to vigorously foster a Corporate Culture based on a Vision, Mission, and Beliefs. That New Culture has been transforming the PDIC into a dynamic institution and its people committed to exemplary public service.

Guided by a new esprit de corps, the PDIC proceeded to pursue its Mission in the fulfillment of its mandate as the sole insurer of deposits, the primary agency of receivership and liquidation, and an institution entrusted to strengthen the Philippine banking system and enhance public confidence in it.

Claims Payments

Pay-offs to depositors of insured accounts in closed banks were done faster. When before, settlements of claims took over nine months, last year, the process took six months or shorter even. New systems with more controls were installed. Claims were better monitored and tracked as to their status. Whereas previously, the Claims Department alone was entrusted to process and pay depositors as well, the Treasury Department has been empowered to conduct the pay-off as a check mechanism.

Receivership and Liquidation

The PDIC assumed more closed rural banks and developed its capability of handling larger thrift banks. In 1990, the PDIC assumed nine rural banks and two thrift banks under its receivership and liquidation functions.

The process of increasing its capacity and capability continues until PDIC assumes custody over all closed banks. Manuals that will serve as the standards of receivership and liquidation have been written and will be implemented in mid-1991. These manuals will be constantly refined by experience.

Risk Management

To better monitor the health of individual banks and the system as a whole, the PDIC commissioned external consultants to develop manuals for the Examination, Assessment, and Insurance Sector. The manuals have been written and are being finalized for implementation in 1991.

More closure prevention and bank strengthening measures were applied in 1990. Over P 1 billion in financial assistance was granted. An example of a closure prevention technique was when PDIC initiated the consolidation of a thrift bank with a commercial bank and, thus, prevented the former's closure.

The PDIC, in partnership with the Land Bank of the Philippines, vigorously campaigned for the formation of more liquidity pools among rural bank federations.

By the end of 1990, 13 liquidity pools had been formed and applications of five federations were in the pipeline. The efficacy of these liquidity pools was even tested by the calamities that struck certain areas in the country and triggered heavy withdrawals.

Research and Development

The PDIC conducted more research and development. The compilation of Financial Schemes Available to the Philippine Countryside was updated to contain even more credit programs that rural banks can become a broker for. The PDIC Communique published banking situationers and geographical data on deposits for banks to better evaluate their competitive positions. Financial templates that serve as guides for financial planning for rural banks were developed and will be applied to practical cases in 1991.

Late in 1990, the PDIC participated with the Central Bank, the Land Bank, and a World Bank Mission on a Rural Finance Project in an evaluation of the rural banking sector and the formulation of a comprehensive strengthening program. The program was envisioned for rural banks to reduce the burden of debt to the Central Bank, raise their capital, attain economies of scale, and become more competitive in the banking system.

In the area of deposit insurance, the Savings and Loans Crisis in the United States was monitored in order to benefit from their hindsight and propose preventive measures. The Philippine legislators concerned with the strengthening of the Philippine banking system and the passage of the PDIC Strengthening Bill were duly informed of our recommendations.

To ensure that these substantial gains become lasting and based on institutional strengths, time, efforts, and resources have been expended to upgrading skills and knowledge, increasing financial independence, improving systems and procedures, and deepening the people's commitment to the PDIC's Vision, Mission, and Beliefs.

Human Resource Development

Human resource development is pivotal. From the recruitment and staffing stage, professional criteria are used to evaluate applicants to PDIC management and staff positions.

Training was at a frenzy. The PDIC's 281 employees benefitted from over 2,000 training days conducted in-house and by external institutions. Technical as well as managerial skills were acquired and honed by various seminars and workshops which required concrete output and feedback.

Several key officers were sent to the United States to attend banking and examination courses and conduct observation studies relevant to their duties and functions.

The system of meritocracy remained in place. Forced ranking has become the basis for performance appraisal and merit increases. Models of exemplary performance were likewise lauded and granted President's and Chairman's Awards.

The growing concern for employee welfare was evident in the extension of medical insurance for employees, the circulation of an internal newsletter, and the creation of a grievance machinery.

This concern for welfare extended beyond PDIC's halls when employees spent a weekend to provide assistance and relief to earthquake-stricken areas in Pangasinan.

Financial Independence

The PDIC took strides to gain more financial independence.

PDIC's gross revenues made a remarkable rise of 73%, from 1989's P 476.90 million to P 823.23 million.

Investments in marketable government securities increased to P 3,221 million from P 2,050 million in the previous year, which reflects a sharp improvement in the PDIC's liquidity and earnings base.

Resources grew to P 7,741 million and the Deposit Insurance Fund to P 2,051 million from last year's P 6,627 million and P 2,032 million, respectively.

Systems Upgrade

Innovations were introduced to further improve operational efficiency and efficacy. Operations Quality Reviews (OQRs), a unique internal control system, were implemented. The OQR is designed to evaluate and rate existing operations, procedures, and internal controls. In 1991, all departments will be rated at least once.

Systems and procedures have been rationalized to streamline operations and install appropriate controls. Twenty guidelines that have been approved by the PDIC Board for the Corporation's major functional areas have been completed and are in various stages

of implementation. Meanwhile, 60 more guidelines are being upgraded prior to Board approval and implementation.

PDIC is rapidly acquiring state-of-the-art information technology to meet the growing needs and complexity of the tasks at hand. Forty-three personal computers and two advanced technology laptops have been purchased under the auspices of a World Bank-administered Japanese Export-Import Bank Grant.

The EDP Department is developing more software systems applications and refining previous ones. In-house training to raise computer literacy among PDIC employees is ongoing.

Corporate Culture Enrichment

Ultimately, the shared Corporate Culture that was formulated and agreed upon in the Values for Institutional Enhancement Workshops and further clarified and reaffirmed through the series of Foundation Courses for incumbents and new recruits will continue to be the fountain-head.

The Vision, Mission, and Beliefs shall serve as the cornerstones of better management-staff and peer-to-peer relations, corporate operations, and further innovations.

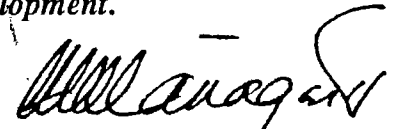
Future Directions

As earlier mentioned, these changes are simply the beginnings. The Institutional Strengthening Program has been implemented and will require further enhancements and fine adjustments.

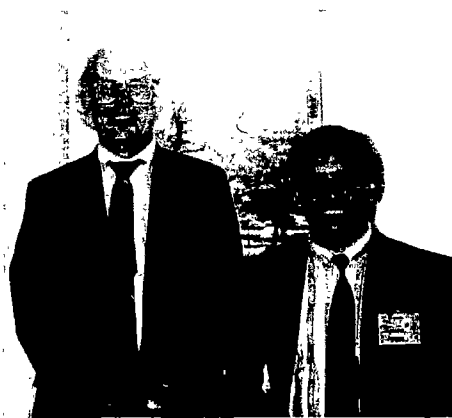
The PDIC will assume authority over all closed banks, implement the systems for infusing more strength in the banking system, and acquire the necessary financial, technological, and human resources in order to meet these ends.

More importantly, the commitment to the Vision, Mission, and Beliefs of the people behind PDIC will deepen and intensify through continuing dialogues and feedback sessions and team-building exercises.

On behalf of the management and staff of PDIC, we wish to thank the national government, the member banks, the depositing public, and everyone who, in one way or another, has contributed to our milestones last year. Once again, we extend our invitation to share in our hopes and endeavors to become more responsive to national development.



VITALIANO N. NANAGAS II
President





PDIC AND THE ENVIRONMENT

A basic source of wealth of a nation lies in its ability to generate savings and mobilize them into activity that will increase its production of goods and services. Higher levels of production can generate more income that will finally mean more savings. A country that can feed this virtuous cycle is well on its way to stable growth and development.

Stability of the banking system and the trust of the depositing public are essential to the economy. Regardless of the prevailing conditions, the PDIC realizes its duty to provide the necessary support in protecting the financial lifeblood of the country.

Thus, the Philippine Deposit Insurance Corporation (PDIC) realizes its role of promoting economic development by preserving public confidence in the banking system.

The Economy in 1990

Contrary to expectations of sustained growth, the national economy tapered in 1990. Events here and abroad frustrated the country's developmental efforts.

Production slowdown. Gross Domestic Product growth was a disappointing 2.54%. It was a year of severe power shortages and natural disasters. Nationwide labor unrest and work stoppages further aggravated the situation.

Burgeoning budget deficit. The government shortfall swelled to P 36.597 billion. Both external and internal debt were serviced, subsidies on fuel and basic services stayed, tax and revenue collections fell short of targets, and expenditures exceeded the budget.

Spiraling inflation. Double-digit inflation returned at 12.6% from last year's 10.6%. Speculations over the Middle East crisis pushed oil prices. Concern over rising costs of living spurred a new round of wage hike negotiations and collective bargaining agreements.

Dimmed investment outlook. With the prospects bleak, investors hesitated to inject fresh capital. Consumer spending has declined as households prepared for hard times and unemployment worsened. Domestic capital formation fell by 0.45%

Losses arising from speculation. The sharp swings in the equities, commodities futures, foreign exchange, and real estate markets resulted in heavy losses. Many of these assets purchased through credit or used as collateral affected the portfolio of banks.

Tight liquidity. Monetary authorities attempted to curb inflation through open market operations for government securities and reserve requirements. Hence, competition for deposits became fierce since hard assets were preferred as financial hedges.

Foreign exchange crunch. Import liberalization and oil price hikes raised Philippine import bills. The trade gap by year-end was US\$4 billion which caused the peso to dwindle to P 28:US\$1 from P 22.35.

Intensified global competition. Democratization in Eastern Europe, the intense rivalry among Southeast Asian countries, a conservative Japanese investment outlook, and a recession in the US lessened the opportunities abroad.

The Philippine Banking System

Despite the adverse conditions, the entire Philippine Banking System chalked up an impressive performance. High treasury bill returns and volumes as well as tighter reserve requirements pushed up lending rates to between the high twenties and mid-forties. Interbank call loan rates broke the 100% mark in December.

Demand and savings deposit rates remained between 4 - 7%, allowing banks to earn a huge spread from these two accounts which comprise over 61% of total deposit liabilities.

As a whole, the banks did well to strengthen their capital base and stock up reserves in anticipation of harder financial climes. The total net worth of the banking system climbed 25.41% to P 64.31 billion.

Commercial Banks

The commercial banking system, which numbered 30 banks at 1990's end, maintained the lion's share of 82.30% of loans and 85.09% of all resources in the banking system. Likewise, the commercial banks cornered 87.18% of the deposits and concentrated on zero and low yielding demand and savings accounts which comprised 59.48% of the sector's deposit portfolio. The commercial banks' total capital accounts made up 69.45% of total capital accounts in the system.

The commercial banks have a larger chunk of loans and deposits of the banking system disproportionate to their share of total capital. This points at the economies of scale in banking that

the commercial banks enjoy by catering to large and corporate clients, considering that the average deposit size is P 32,670.11 as compared to the other two sectors.

Thrift Banks

The thrift banking sector's shares in total loans and assets in the banking system were 7.93% and 6.18%, respectively, very lopsided compared to the number of thrift banks. Quite similarly, the thrift banks' deposit base comprised just 7.48% of all the banks which is concentrated to 65.32% in savings deposits. The total capital accounts of the thrift banks were 6.82% of the whole banking system.

Thrift banks are less leveraged than commercial banks. They carry out more intermediation activities, converting a relatively equal proportion of deposits into loans. Considering the large composition of savings accounts and the average size of P 8,207.57 per deposit account, a thrift bank can very well become the bank for long-term borrowers and middle-income savers.

Rural Banks

The biggest distortion between number and share lies in the rural banking sector which holds the smallest share in loans and assets -- 3.77% and 2.57%, respectively. The rural banks' total deposits are just 2.14% of all the banks, 67.74% of which are in savings accounts. The total capital of the rural banking sector is a mere 3.77%.

Given their performance, the rural banks are found wanting in the promotion of development in the

countryside, the source of about 70% of the GDP and where the same proportion of Filipinos reside.

The rural banks appear to suffer from stiff competition from the larger banks and informal lenders. Based on the size of the average rural bank deposit of P 1,779.11, it would be difficult to expect this sector to generate substantial deposit levels to adequately provide for the long-term needs of agro-industry.

Another problem is that over 65% of rural banks are under-capitalized by P 1.26 billion. The other 35% have idle lending capacity of P6.08 billion as the countryside continues to starve for more affordable credit.

Despite the difficulties, it is imperative that the rural banking sector assume a more dominant role in countryside development, given its size, location, and access to the mass base of Filipinos.

AN OVERVIEW OF THE PHILIPPINE BANKING SYSTEM

	Amount in Million Pesos	Annual % Growth
ASSETS		
Liquid Assets	157,667	26.31
Net Loans	290,544	28.84
Investments	77,841	16.20
Other Assets	77,993	40.85
Less: Valuation Reserves	908	632.26
TOTAL ASSETS	603,137	27.63
LIABILITIES		
Deposits	359,016	23.86
Borrowings	66,055	26.44
Other Liabilities	113,755	43.65
Add: Accrued Interest		
TOTAL LIABILITIES	538,826	27.90
NET WORTH		
Capital Stock	28,569	17.85
Surplus and Reserves	36,650	34.93
Less: Valuation Reserves	908	632.26
TOTAL NET WORTH	64,311	25.41



FORGING A CORPORATE STRATEGY AND CULTURE



There are driving forces behind an institution that operates beyond itself and exists for a higher end. A Vision forms noble goals that motivate people to move forward. A Mission transforms work to a sense of worth. A set of Beliefs provides the appropriate means for the fulfillment of the vision and mission.

The PDIC defines its Vision of 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 its officers and staff.

The 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 its member banks, and
- Handling of financial assistance;

* Maintain and foster greater public confidence in the Philippine Banking System through:

- Adequate deposit insurance protection,
- The prompt and expeditious claims processing and payment,
- The efficient and effective management of the receivership/liquidation function, and
- The judicious rehabilitation of closed banks;

* 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; and
- * People are our most important resource.



The PDIC's Vision, Mission, and Belief Statements have to be apparent in concrete plans of action and standards of performance.

Receivership and Liquidation:

The PDIC shall become the primary agency in receivership and liquidation. While in the process of updating manuals and hiring competent personnel, PDIC shall build up capabilities to assume receivership and liquidation of all closed banks.

Membership Strengthening:

PDIC shall develop and promote more self-initiating/self-policing set-ups similar to liquidity pools.

PDIC shall formulate closure prevention techniques that will involve initiative and more active participation from member banks.

The PDIC shall also promote and implement a comprehensive rural bank strengthening program aimed at reducing their debt burden, raising their capital, improving their profitability, increasing their size and making them more competitive.

Human Resources Development:

The PDIC shall institutionalize its training and further develop its officers and employees. Various awards shall continue to be given

in acknowledgment of improved performance and substantial contribution to over-all productivity.

Computerization and Systems

Enhancement: PDIC shall continue to implement innovative and effective systems and procedures to ensure smooth daily transactions. Plans for Corporate-wide networking shall be implemented.

Internal Controls:

PDIC shall undertake strict internal audits that evaluate and upgrade management control of the different sectors and departments.

Research and Development:

PDIC shall upgrade its publications. It shall develop financial templates for rural banks for planning and portfolio diversification.

Financial Condition:

PDIC shall devise and implement measures that will further improve the liquidity and earnings base of PDIC, strengthen the permanent insurance fund, and raise operating efficiency.

Enhanced Public Image:

PDIC shall be known as an institution that infuses vigor in the Philippine banking system and ensures the effective mobilization of savings and credit to further economic development.



ORGANIZATION

An organizational structure allocates human and physical resources to attain set goals and objectives. Responsibilities, authority, and relationships are effectively defined and delegated. Moreover, the mechanisms for carrying out Corporate strategy and channels of communication and control are put in place.

Hence, the PDIC has organized itself to fulfill its mandated functions as the insurer of deposits, the primary agency of receivership and liquidation, and a catalyst of public confidence in the Philippine banking system.

Claims, Receivership, and Liquidation (CRL) Sector

This sector handles all activities involving closed banks.

The Claims Department determines the amount of insured deposits in closed banks and manages actual payoff operations, including the custody and disbursements of claims by depositors and proper accounting, recording and reporting of payoff expenses and activities.

The Receivership and Liquidation Departments engage in the control and preservation of bank assets, their subsequent conversion into cash, and the distribution of the converted assets among the banks' creditors and stockholders.

The Acquired Assets Management Office is the control unit of the CRL departments and establishes the integrity of their transactions. It also handles the recovery of the PDIC's insurance losses and the filing of claims against closed banks for subrogated deposits in those banks.

Examination, Assessment, and Insurance (EAI) Sector

This sector concerns itself with all matters pertaining to 940 operating banks.

Firstly, Assessment activities cover the efficient and accurate assessment and collection of premiums, penalties and other charges receivable from member banks. It also involves monitoring member banks' compliance with legal requirements on advertisements, display decals, and punctual submission of reports.

Secondly, its activities involve monitoring the condition of banks and the general stability of the banking system. Monitoring activities serve as the early-warning system that forewarns the PDIC of varying degrees of insurance risk exposure and the less costly options to closure, that is, if they are available.

Thirdly, the EAI handles bank closure prevention and strengthening policies. One is the management and extension of financial assistance. Another is the campaign and organization of liquidity pools for rural banks. Still another is the initiation of mergers, consolidations, and acquisitions. Studies on remedial measures and bank strengthening mechanisms are also conducted.

Corporate Services Sector

This sector provides staff support for all of PDIC's operations:

Accounting, for maintaining the integrity of the Corporate records and accounts and registering financial transactions of

PDIC's assessment, claims, receivership, and liquidation functions;

Treasury, for the safekeeping and optimal utilization of financial resources, the conscientious disbursement of payments and liquidations, for the preparation and strict implementation of the budget, and expeditious payment of claims; and

Administrative, for maximizing the use of existing facilities, the expeditious procurement of necessary additional equipment and materials, for ensuring safety of all employees through a vigilant security force, maintenance of company properties, and the cultivation of human resources.

Office of the President

The Office of the President is responsible for the proper execution of the PDIC's policies and the efficiency and effectiveness of day-to-day operations. Providing staff support to this Office are several ancillary departments.

The administration of Legal Services is divided among:

- a) Legal Services Department handles contracts, queries on claims, and other official needs;
- b) Litigation Department initiates the filing of suits against

those involved in unlawful banking practices and handles the cases involving banks under PDIC receivership and liquidation.

Special Investigations Office is mandated to gather evidence leading to the prevention of bank malpractices and the prosecution of parties involved.

Management Services Office establishes internal controls and systems, conducts Operations Quality Reviews, and establishes liaison with the Commission on Audit.

Special Services Group has the following Departments and Office:

- a) Planning Department provides counsel in formulating and presenting corporate plans and strategies, general information on PDIC and deposit insurance, economic and banking statistics and research. It also handles publication of several relevant and informative printed materials.
- b) Electronic Data Processing Department develops and maintains the PDIC's information technology and develops appropriate system applications; and
- c) Public Relations & Liaison Office disseminates information to the public and establishes liaison with PDIC clients, concerned groups, and government agencies.

Board of Directors



Jose L. Cuisia, Jr.
(Governor, Central Bank of the
Philippines)
Chairman



Vitaliano N. Nañagas II
(President, Philippine Deposit
Insurance Corporation)
Vice Chairman



Victor C. Macalincag*
(Undersecretary,
Department of Finance)
Director

Diosdado M. Macapagal, Jr.*
(Undersecretary,
Department of Finance)
Director

Executive Officers



Vitaliano N. Nañagas II
President



Nievelena V. Rosete
Senior Vice-President
Corporate Services



Caesar O. V. Parlade**
Senior Vice-President
Examination, Assessment, and Insurance

Vice-Presidents:

Rosalinda U. Casiguran
Chief Legal Counsel

Catherine F. Bamba***
Special Services

Assistant Vice-Presidents:

Roberto S. Federis
Special Investigations Office

Ma. Elena E. Bienvenida***
Corporate Services

Managers:

Eleanor B. Lopez
Administrative

Flordeliz C. Porsovigan***
Accounting

Josefina A. Reyes***
Examination, Assessment
and Insurance I-B

Elenita B. Vidal
Acquired Assets Management Office

Aurora C. Baldoz
Claims, Receivership
and Liquidation II-A

Teodoro E. Gallardo***
Claims, Receivership
and Liquidation I-A

Managers:

Edita D. Villar
Claims, Receivership
and Liquidation II-B

Armando L. Quilala ***
Management Services Office

Joffre V. Balce
Planning and Research

Rosola A. Vivas **
EDP

Rescina S. Bhagwani **
Special Assistant to the Corporate Head

Assistant Managers:

Henry A. Siriban
Administrative

Avelino T. Iglesias, Jr.
Legal Services

Jaime H. Gillego
Planning and Research

Corporate Executive Officers:

Ester B. Binalla
Office of the President

Teresita D. Gonzales
Office of the SVP

Juan V. Lanting
Security
Administrative

Imelda M. Rienda
General Accounting

Josefina G. Coligado
Investment Office
Treasury

Sandra P. Arce
Examination, Assessment,
and Insurance I-A

Glorificacion M. Nocos
Cash Division
Treasury

Jocelyn J. Nepomuceno
Examination, Assessment,
and Insurance I-A

Antonio V. Marquez
Claims, Receivership,
and Liquidation I-A

Edgar C. Ante
Claims, Receivership,
and Liquidation I-A

Levy C. Cruz
Claims, Receivership,
and Liquidation II-B

Jesus G. Serrano
Legal Services

Teodoro Jose D. Hirang
Claims, Receivership,
and Liquidation II-B

Pablo Y. Romero, Jr.
Litigation

Renato N. Pulido
Claims, Receivership,
and Liquidation II-B


Jose Alexander G. Festin
EDP

Zenaida A. Villaroman
Management Services Office

* Mr. Macalincag was succeeded by Mr. Macapagal effective March 1, 1991.

** Newly appointed Officers/Board Member.

*** Recently promoted Officers.



INSURANCE ACTIVITY

Like other insurance firms, the PDIC invests in risks. However, the return on investment is not profit but the preservation of the payments system and, ultimately, the effective mobilization of savings and credit to spur development.

Through its over two decades of operation, the PDIC has responded to the needs of the

depositors and the banking system regardless of the political and economic conditions of the time.

PDIC Membership

In 1990, the banking system experienced the closure of twenty rural banks and two thrift banks, while a thrift bank's application to become a commercial bank was approved.

MEMBERSHIP BREAKDOWN

Bank Group:	1990	1989
Commercial Banks	30	29
Thrift Banks	103	106
Savings & Mortgage	7	8
Private Development	40	41
Stock Savings & Loan	56	57
Rural Banks	804	824
Specialized Government	3	3
ALL BANKS	940	962

PDIC Risk Exposure

At year-end 1990, PDIC's liabilities for insured deposits or risk exposure amounted to P 93.35 billion or 26.3% of the banking

system's total deposits of P 354.1 billion. About 94% or 15.84 million accounts are fully covered by the P 40,000 deposit insurance.

ESTIMATED RISK EXPOSURE: (Amounts in million pesos)	1990	1989
Total Deposits	354,139	292,172
Amount Insured	93,345	82,635
% Insured	26.3%	28.3%
Total No. of Accounts	16.85 million	17.63 million
Accounts Fully Protected	15.84 million	16.73 million
% Accts. Fully Protected	94.0%	94.9%
Number of Reporting Banks	870	909

Bank Closures: A Brief History

The incidence of bank closures in the seventies was quite manageable. The years when commercial bank closures occurred were marked by sharp rises in oil prices, when the Organization of Petroleum Exporting Countries exercised their market power, and devaluations of the peso to make corresponding adjustments in the Balance of Payments.

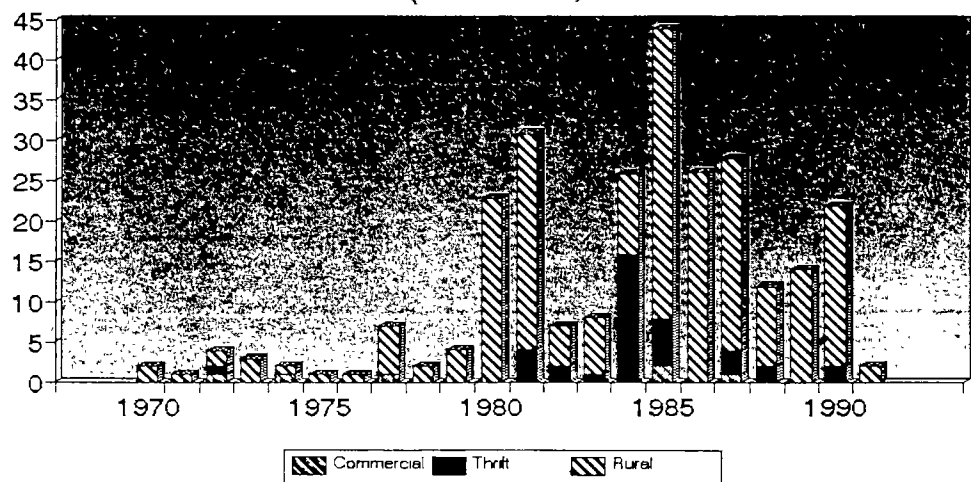
A crisis of confidence in the Philippine banking system was sparked by the infamous Dewey Dee caper, when he surreptitiously fled the country leaving about \$100 million in unsecured debt. The start of the decade was marred by a wave of bank closures as depositors, wary of the lending practices of their banks, panicked to withdraw their savings. Financial reforms were introduced where lending rate ceilings were lifted.

However, a combination of political crises, sharp peso devaluations, and lost investor confidence sparked by the Benigno Aquino assassination once again exposed the banking system to extreme economic difficulties, especially the banks that were heavily exposed to accounts involving capital and foreign exchange.

There was a respite in 1988 and 1989, when the economy enjoyed a more robust growth and stable prices. However, the number of bank closures again numbered more than twenty when the economy suffered from a series of calamities -- both natural and man-made, local and global in occurrence.

Past bank closures and financial crises have tried, tested, and strengthened the PDIC, which now faces the challenges of taking a more proactive role in the banking system.

NUMBER OF BANK FAILURES
(1970 - 1991)





Essential to PDIC's mandate is the prevention of banks' closures and the strengthening of their financial condition whenever feasible and warranted by the common good.

Bank Strengthening

* The PDIC vigorously promoted the liquidity pool concept, where rural banks contribute a part of their liquid assets and is matched peso for peso by the Land Bank of the Philippines. The pool is invested in treasury bills to earn high yields but can be availed of by banks in times of liquidity crises. If emergencies warrant more borrowings than the pool can provide, PDIC is willing to lend additional money.

Prestige, as well as peer pressure, encourages rural banks to join the pool and ensure that it serves the very purpose for which it was built. There are strict qualifications for membership and availment of the liquidity pools, making them an effective, independent early-warning system.

As of the end of the year, 13 liquidity pools covering 254 rural banks had been organized. Five more liquidity pools involving 66 banks are currently being organized in eleven provinces.

Research and Development

The PDIC has provided information on regional deposit distribution and credit schemes available to rural enterprises to its member banks through its publications: the **Communique and Financial Schemes Available to the Philippine Countryside**.

Financial templates -- computer-aided tools that rural bankers can use for corporate plan-

ning and risk management -- were being developed and fine-tuned. They will be consolidated into training/seminars and technical assistance.

In the last quarter of 1990, the PDIC in partnership with the Central Bank, the Land Bank, and a World Bank Mission for Rural Finance formulated a Comprehensive Rural Bank Strengthening Program aimed at building up the capital base of countryside banking.

The PDIC also granted financial assistance amounting to P 1,124.66 million in principal and accrued interest that prevented the closure of banks.

PDIC initiated the consolidation of a commercial bank and a thrift bank to strengthen their capital base.

Assessment

In 1990, 2,027 audits/verifications were conducted. That meant banks were audited for compliance with assessment regulations at least twice in the year.

Thirty-six banks were found to be delinquent in the submission of Regular Certified Statements, seven banks were given warning while four others were penalized.

Sycip, Gorres, Velayo, and Company was commissioned to develop a system for monitoring bank condition and stability. The policies and procedures set by the system will serve as the standards of bank stability, sound banking practices, and the extension of financial assistance. The policies and procedures are being finalized into manuals for implementation.



17. STATE OF THE UNION

In the occurrence of a bank closure, the PDIC is required to pay claims up to a maximum of P 40,000 per individual depositor. Its timely payment counts in soothing the anxieties of savers and preserving confidence in the system.

Better systems for monitoring and tracking of claim payments have been installed and implemented. Where before settling of claims took about nine months, the new system cut the time to six months or shorter with more operating controls in place.

PAID CLAIMS
(Cumulative and 1990 Figures)

BANK:	For Year 1990		Dec. 31, 1990	
	#	P thousands	#	P thousands
Commercial Banks	1,695	3,911	238,164	962,682
Thrift Banks	16,635	75,132	694,353	1,787,536
Rural Banks	7,550	28,192	163,724	242,973
TOTAL	25,880	107,235	1,096,241	2,993,192*

* This differs from the ACD figure on Subrogated Claims Paid amounting to P 2,894,520 thousand due to the following

- Inclusion of recoveries from 20 rehabilitated and liquidated banks in the amount of P 57,032 million;
- Exclusion of net exchange rate differentials of P 181 thousand;
- Payments to Mindanao SLA as of December 31, 1990 totalled P 68.131 million while ACD recorded payments of P 22.690 million

PENDING CLAIMS

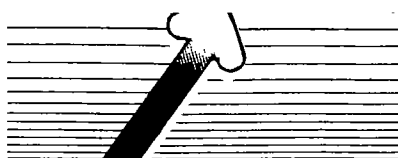
Status:		December 31, 1990	December 31, 1989
Awaiting Claimants	# Accounts:	12,060	9,359
	P Million:	4.5	3.4
For Processing	# Accounts:	35	6,017
	P Million:	0.3	12.7
Referred to Legal Dept.	# Accounts:	1,919	44,899
	P Million:	31.9	1,805.5
Insufficient Docum.	# Accounts:	57,763	14,406
	P Million:	645.3	106.0
TOTAL	# Accounts:	71,777	74,681
	P Million:	682.0	1,927.6

Legend:

- Awaiting Claimants: These are claims that remain uncollected by depositors and that have been fully processed and ready for payment. PDIC has been systematically writing the claimants regarding the status of their claims. PDIC will, however, stop after the third writing.
- For Processing: These are claims of depositors in very recently closed banks and have not yet been either verified or evaluated.
- Referred to Legal Department: These are problematic claims that have been forwarded to the Legal Department requiring legal advice, resolution or court decision.
- With insufficient documentation: Claims that require more procedural and documentary evidence before they can be further processed. Claimants are fully informed by mail of their deficiencies.

To date, the PDIC has paid depositors' claims amounting to P 2,993 million in more than 1.096

million accounts in banks closed since 1970.



REPORT ON CLOSED BANKS AND LIQUIDATION

Effective receivership and liquidation ensures the preservation of the closed bank's assets and the expeditious settlement of accounts with obligors. Thus, it is vital in minimizing costly disruption in the payments systems.

By 1990, PDIC had assumed receivership and liquidation of nine rural banks and two thrift banks.

The PDIC set a new trend in its receivership function when it took over Mindanao Savings and Loan Association (MSLA) immediately upon its closure. Previously, PDIC would take on banks still assumed by the CB.

As per the year-end report of these closed banks, the PDIC, through its deputies, has managed to run their operations efficiently. Revenues generated from existing bank assets and business were greater than expenditures incurred, preparing these banks for liquidation.

The CRL Manuals which set procedures and establish policies on receivership and liquidation have been completed. These manuals are expected to be implemented in June 1991. They will serve as the standard for all receivership and liquidation cases since PDIC shall assume authority over all closed banks in the medium term.

PDIC, through the Acquired Assets Management Office (AAMO) has also filed for P 818.712 million against the receiver of 35 closed banks (23 SSLAs, 8 RBs, and 4 PDBs) for its payments of 225,485 insured accounts in these banks amounting to P 830.904 million.

PDIC, through the supervision of the AAMO, also established a transfer deposit scheme, whereby deposits in a recently closed bank are reopened in another bank. This system expedites the pay-off of claims. Thus, depositors are spared of anxiety, and are provided the option of maintaining their account, helping preserve confidence in the banking system.

REPORT ON CLOSED BANKS UNDER RECEIVERSHIP/LIQUIDATION As of December 1990 (in thousand pesos)

BANK	NET WORTH	REVENUES	EXPENDITURES
PISO Development Bank	271,709.48	396,321.54	68,937.24
RB of Amulung	(429.27)	25.85	22.45
RB of Ballesteros	(2,221.13)	983.91	182.03
RB of San Leonardo	(2,382.86)	643.55	125.89
RB of Real	(728.33)	59.12	22.04
RB of Boac	(504.03)	241.50	95.85
RB of Lazi	(185.07)	630.07	114.96
RB of San Francisco	(653.95)	184.94	95.31
RB of Nampicuan	Audit and Inventory Being Taken		
RB of Plaridel	"	"	"
Mindanao SLA	"	"	"

At the PDIC, its people are its most valuable resource. Painstaking efforts are made, financial resources are spent, and professional services are employed to ensure the quality of recruits, the constant upgrading of existing personnel, and the improvement of the welfare of employees.

Recruitment and Placement

Strict standards and professional methods underlie recruitment and placement in both management and staff. The PDIC commissioned the Assessment Center, which is administered by the Development Academy of the Philippines (DAP), to conduct a battery of tests and interviews that evaluate skills, capacities, and aptitudes of the individual.

Applicants that pass the preliminary interviews and the Assessment Center undergo another series of evaluative interviews before the decision is made by members of the Placement and Selection Committees. They confirm results of tests and determine other relevant factors not reflected in the previous tests.

Human Resource Development

Training was at a frenzy in 1990. Practically all employees have availed of at least one training program in the year. About 43 seminars and training programs totaling over 2,000 training days were conducted.

However, more important than quantity was the quality of training.

Primary to the PDIC was the laying of a Corporate Culture that encourages excellence and fosters work ethic. Hence, the Values for Institutional Enhancement Workshops, that were facilitated by the DAP, were formed to formulate and promote the PDIC's vision, mission, and beliefs.

Succeeding Foundation Courses fostered better job appreciation, manager-subordinate relationships, and team effectiveness. They further deepened the understanding, commitment, and resolve of incumbent employees and new recruits to uphold the PDIC's vision, mission, and beliefs.



The DAP conducted the first module of the Management Upgrading Series of Training, an executive development program for incumbent officers. The Whole-Brain Thinking Module imparted skills and techniques on situation appraisal, problem analysis, decision analysis, action planning, and potential problem analysis. The module also exercised and honed intuitive skills needed in the management function.

Several senior officers attended seminars and conducted observation studies at the Federal Deposit Insurance Corporation and the Federal Reserve Board in the United States.

Employee Welfare

The PDIC commissioned Philamcare to provide health care services to employees. All PDIC employees with permanent appointments (the first 6 months of which is on probationary status) are insured with GSIS.

A grievance and suggestions machinery composed of management and staff was organized. It aims to improve internal Corporate relations in the spirit of a shared Corporate Culture.

InterCom (Internal Communique), the newsletter of the Corporation, was formed and circulated to all employees. It serves as an effective channel through which information and ideas are expressed

constructively and transparently. In the InterCom, there is no censorship because the ultimate responsibility lies with the writer/contributor.

Performance appraisals were done through forced rating/ranking to encourage work effectiveness and ensure professionalism. Incentive awards were granted for exemplary performance.

For the first time, Chairman's Awards were granted to officers who have shown dedication, produced exceptional accomplishments in the formulation of policies and procedures, and rendered exemplary services. For deserving staff members, President's Awards were given for their outstanding display of responsibility and dependability in the performance of their respective duties.

The principle of meritocracy became the basis for advancement in the PDIC. Hence, a merit promotion scheme was developed and implemented where advancement is based on effort, performance, and proven potential.

The PDIC's concern for general welfare even overflowed to Malasiqui, Pangasinan, where last year's earthquake had wrought tremendous damage and economic dislocation. PDIC employees spent a weekend off to provide assistance and relief to the residents of the area.

Head Count	
SECTOR	NO. OF PDIC EMPLOYEES
Claims, Receivership, & Liquidation	102
Examination, Assessment, & Insurance	45
Corporate Services	92
Executive Offices	42

TOTAL	281

Constant improvement of PDIC's product and service delivery systems was manifested in its improved systems, established internal controls, and the upgrade in computerization.

Internal Controls

A system for monitoring the main aspects of PDIC's performance on a monthly basis has also been devised and is being fine-tuned. The new internal audit program - the Operations Quality Review (OQR) -- to cover the entire corporate operations was launched in June 1990. The program covers both routine audit verifications and semi-annual departmental performance appraisals.

The Board approved 20 operating guidelines for strict implementation in major functional areas of the Corporation. Numerous guidelines are in the process of being reviewed and upgraded prior to Board approval and implementation.

Management policy on ensuring written and approved operating guidelines on all major aspects of operations is being carefully monitored for compliance.

A strict rating system that evaluates the unit's performance, compliance with sound and accepted accounting and management principles, and employees' ethical conduct is also involved in the OQR. This becomes the basis for identifying areas of control and efficiency that may need improvement.

By the end of the year reviews on seven departments were being conducted, two of which have been completed.

Another system for monitoring and tracking the main aspects of PDIC's performance on a regular basis has been devised and is also being fine-tuned.

Computerization

In 1990, the PDIC had a total of 43 personal computers and two laptops, mostly acquired under the auspices of a World Bank-administered Japan EXIM Bank grant.

Initial groundwork has expedited documentation and enhanced operations of accounting, treasury, claims, internal control, and statistics. Some of the systems being developed will be operational during the first half of 1991.

The foundation for a comprehensive computerization and integrated networking of operations has been laid. The network will be personal-computer based, which makes it considerably cheaper to upgrade and accommodate rapid advances made in information technology. Included in that system is a relational database management system with the necessary checks and control mechanisms.

Because of the intensive use of computers, technological literacy has become necessary for most PDIC employees. In-house training in the basic softwares for word-processing, electronic spreadsheets, data base systems, and computer care is continuous.

EDP staff skills in software and hardware development are also being upgraded by outside seminars sponsored by specialized private and government agencies. The Department's aim is to develop internal capabilities for maintenance and security.



LEGAL DEVELOPMENTS

Because of the wider scope of responsibilities and expanded functions, the need for legal services had, likewise, increased.

During the year, the Legal Services Department prepared 171 payoff-related memo advice/opinions covering 42 closed banks. Queries involved the determination of insured deposits, alterations on the signature cards, offsets, claims for government deposits, prescriptive dates for the filing of claims, and missing documents, among others.

Cases being monitored/handled by the Litigation Department during the same period included:

- Petitions for assistance in the liquidation of closed banks;
- Administrative cases filed by PDIC vs. employees;
- Petitions for declaratory relief by two banks against PDIC;
- Collection cases filed by depositors for insured depos-

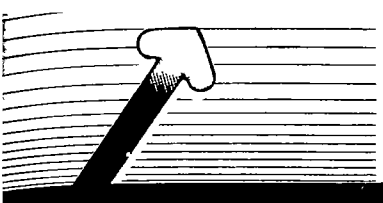
its covering the amount of P4.4 million;

- Cases filed by/against closed banks under PDIC receivership/liquidation;
- Case filed by PDIC on the occasion of pay-off in RB of Pasacao.

The PDIC has also filed in court petitions for assistance in connection with the liquidation of the Rural Banks of Ballesteros, Boac, Nampicuan, Plaridel, Real, and San Leonardo.

More lawyers shall be recruited in order to meet the growing need for legal services as the PDIC assumes more responsibilities.

The Office of the Chief Legal Counsel maintained liaison with the Senate Committee on Banks, Financial Institutions, and Currencies. The Committee was continually informed of developments in the Savings and Loans Crisis in the United States and received PDIC memoranda on policies that can prevent such problems from arising.



The institutional arrangement of deposit insurance in the Philippines evolved through the years. Changes became necessary but can only become possible through legislation.

Hence, a new Senate Bill (No. 1539) on deposit insurance is under consideration in the Senate Committee on Banks, Financial Institutions and Currencies. The PDIC is pursuing to include the following amendments to its Charter:

Increased Depositor Protection

The maximum deposit insurance coverage is being raised from the present P 40,000 to as much as P 100,000.

Checks issued by managers, cashiers, and other officers, as well as demand drafts and other similar payables cannot be treated as regular deposits. They compromise PDIC's risk exposure and must, therefore, be excluded from insurance coverage.

Deposit insurance coverage should be extended to credit cooperatives, considering their intermediary function, subject to PDIC rules and regulations.

More Effective Banking System Protection

PDIC needs the power to purchase stock in order to effectively

prevent bank closure and maintain the stability of the financial system.

Optional higher insurance coverage could also be made available under conditions that the Board of Directors will prescribe and at a different rate and amount to be paid by the bank for the purpose.

Wider Capital and Earnings Base

Capitalization should be raised to at least P 7 billion to cover PDIC's indebtedness (capital and interest) of P 3.89 billion and liabilities on insured deposits in closed banks amounting to P 3.70 billion.

PDIC must be able to charge special assessments in major banking crises, when the PIF is at a critical level and cannot adequately prevent mass closures and meet payoffs.

Stronger Legal Authority

The PDIC's authority to issue cease and desist orders on unsafe and unsound banking practices should not require prior approval of the Monetary Board to effectively protect public interest with the appropriate checks and balances.



FINANCIAL CONDITION

The PDIC envisions itself as a strong and financially independent institution that can provide for its operations and respond to the needs of the banking system and Philippine economic development.

Thus, operational efficiency and viability and growth in resources become strategic to the PDIC.

Operations

Gross revenues in 1990 were P 823.23 million, 73% over last year. Assessments income grew by 29%, from P 197.23 million in 1989 to P 254.38 million.

On the other hand, total expenses increased by 19% to P 389.56 million, mostly consisting of interest expense on Central Bank borrowing of P 339.28 million. After provision for insurance losses of P 421.36 million, the net income stood at P 12.31 million, 21% higher than the previous year.

PDIC's increased operational efficiency was reflected in higher earnings outpacing the growth of expenses.

Resources

By year-end 1990, the total assets of PDIC amounted to P 7.74 billion, or 17% over last year. Current assets rose by 28% from P 2.71 billion to P 3.47 billion. Assets acquired in bank assistance and subrogated deposits amounted to P 4.21 billion, up by 8% over 1989. The unremitted balance due from the National Treasury on PDIC's Permanent Insurance Fund stood at P 50.5 million.

The Corporation's liabilities consisted principally of Notes Payable to the Central Bank amounting to P 2.75 billion and accrued interest of P 1.14 billion. Other liabilities and deferred credits amounted to P 1.12 billion, principally made up a net allowance for insurance losses of P 813.36 million.

Deposit Insurance Fund

At the close of 1990, the Deposit Insurance Fund (DIF) stood at P 2.05 billion. Retained earnings, a component of the DIF, was P 51.34 million, up by 61% over last year. The National Treasury released P 454.5 million to PDIC during the year, leaving only P 50.5 million balance of the P 2 billion authorized PDIC capital.



FINANCIAL HIGHLIGHTS

(Amounts in Million Pesos)

FINANCIAL CONDITION

	1990	1989	CHANGE	
			Amount	Percent
Total Assets	P 7,741.00	P 6,626.63	P 1,114.37	16.82%
Current Assets	3,474.67	2,711.51	763.16	28.15%
Long-term Investments	-	8.17	(8.17)	
Assets Acquired in Bank Assistance and Subrogated Deposits	4,205.04	3,889.26	315.78	8.12%
Property and Equipment	49.30	5.61	43.69	778.79%
Other Assets	11.99	12.08	(0.09)	-0.75%
Total Liabilities	5,689.66	4,594.66	1,095.00	23.83%
Current Liabilities	673.95	399.25	274.70	68.80%
Long-term Liabilities	3,890.26	3,440.98	449.28	13.06%
Other Liabilities and Deferred Credits	312.09	178.69	133.40	74.65%
Allowance for Insurance Losses	813.36	575.74	237.62	41.27%
Deposit Insurance Fund	2,051.34	2,031.97	19.37	0.95%

RESULTS OF OPERATION

Total Income	823.23	476.90	346.33	72.62%
Total Expenses	389.56	326.71	62.85	19.24%
Operating Income Before Provision for Losses	433.67	150.19	283.48	188.75%
Less: Provision for Losses	421.36	140.00	281.36	200.97%
Net Income	12.31	10.19	2.12	20.80%

CONSOLIDATED STATEMENT OF CONDITION*
(Amounts in Thousand Pesos)

	1990	1989
CURRENT ASSETS	P 3,474,670.96	P 2,711,509.98
Cash, including Short-term		
Deposits	1,903.40	3,211.86
Payoff Funds *	122,462.60	95,072.82
Due from CB (PDIC Account)	130.43	151.53
Philippine Government		
Obligations (Note A)	3,221,307.40	2,050,384.59
Permanent Insurance Fund		
Receivable	50,500.00	505,000.00
Accounts and Other		
Receivables	78,144.13	57,440.70
Inventory of Supplies		
and Materials (Note E)	74.38	135.38
Prepaid Expenses	148.62	113.10
LONG-TERM INVESTMENTS		
Philippine Government Obligations (Note A)	-	8,170.00
ASSETS ACQUIRED IN BANK ASSISTANCE AND DEPOSIT SUBROGATED TRANSACTIONS		
Net of Estimated Insurance Loss of: P 278,478.36M in 1990 and P 214,017.41M in 1989 (Note C)	4,205,036.75	3,889,260.68
PROPERTY AND EQUIPMENT		
Net of Accumulated Depreciation (Note D and F)	49,297.73	5,607.73
OTHER ASSETS	11,993.68	12,084.86
TOTAL ASSETS	7,740,999.12	6,626,633.25

*Unaudited

(See accompanying Notes

CONSOLIDATED STATEMENT OF CONDITION
(Amounts in Thousand Pesos)

	1990	1989
CURRENT LIABILITIES	P 673,952.78	P 399,250.71
Accounts Payable - PNB	202.16	306.09
Accounts Payable - various	6,013.95	4,494.40
Due to Officers & Employees	11,646.84	16,124.88
Due to Payoff Funds	16.37	24.53
Estimated Subrogated Claims Filed Payable	172,854.73	177,259.36
Estimated Subrogated Claims Payable	483,218.73	201,041.45
LONG-TERM LIABILITIES	3,890,256.44	3,440,977.77
Notes Payable - CB	2,750,000.00	2,640,000.00
Accrued Interest Payable - CB	1,140,256.44	800,977.77
OTHER LIABILITIES AND DEFERRED CREDITS	1,125,448.18	754,436.26
Deferred Assessment Income	46.31	230.82
Unearned Discount	311,039.00	177,461.25
Accounts Payable - Perpetual Savings Bank	1,000.00	1,000.00
Allowance for Insurance Losses (net) (Note B)	813,362.87	575,744.19
TOTAL LIABILITIES	5,689,657.40	4,594,664.74
DEPOSIT INSURANCE FUND	2,051,341.72	2,031,968.51
Permanent Insurance Fund	2,000,000.00	2,000,000.00
Retained Earnings	51,341.72	31,968.51
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND	7,740,999.12	6,626,633.25

INCOME AND RETAINED EARNINGS *
(Amounts in Thousand Pesos)

	1990	1989
INCOME	P 823,230.10	P 476,903.20
Assessment Income	254,381.60	197,233.26
Interest Earned	169,231.95	97,040.82
Earned Discounts	399,594.35	182,618.27
Miscellaneous Income	22.20	10.85
EXPENSES	389,562.51	326,714.24
Personal Services	35,532.68	32,111.25
Management Expenses	1,846.52	5,246.44
Property Expenses	1,798.57	1,089.22
Communications	540.71	379.27
Interest Expenses	339,278.66	279,814.11
Travel	1,261.11	2,030.40
Taxes	155.80	146.87
Others	9,148.46	5,896.68
INCOME BEFORE PROVISION FOR INSURANCE LOSSES	433,667.59	150,188.96
Provision for Insurance Losses	421,356.76	140,000.00
NET INCOME	12,310.83	10,188.96
RETAINED EARNINGS, January	30,842.01	29,949.22
Add: Prior Year's Adjustment	8,188.88	(8,169.67)
RETAINED EARNINGS	51,341.72	31,968.51

*Unaudited

CHANGES IN COMPONENTS OF WORKING CAPITAL
(Amounts in Thousand Pesos)

	1990	1989
INCREASE/(DECREASE) IN CURRENT ASSETS	P 763,160.96	P 1,010,086.59
Cash	6,264.16	(1,478.53)
Payoff Funds	19,817.16	(6,117.58)
Permanent Insurance Fund	(454,500.00)	(45,000.00)
Accounts & Other Receivables	20,682.31	12,566.71
Philippine Government Obligations	1,170,922.81	1,049,946.41
Other Current Assets	(25.48)	169.58
INCREASE/(DECREASE) IN CURRENT LIABILITIES	613,980.74	323,836.05
Accounts Payable and Accrued Expenses	340,798.22	282,539.74
Accounts Payable - PNB	(103.93)	306.09
Other payables	273,286.45	40,990.22
INCREASE/(DECREASE) IN WORKING CAPITAL	149,180.22	686,250.54

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

NOTES TO STATEMENT OF CONDITION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Valuation of Investment

Securities/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 operating income to augment the Permanent Insurance Fund. Monthly reserve was provided from assessment earned after deducting operating expenses 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 Veterans Bank. The reserve provided in the past eighteen years has an annual average of P43,834,000.00.

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

Starting 1986, under Board Resolution No. 156, valuation reserves for Insurance Losses 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. For accounts pertaining to banks which have been closed for ten years as of December 31, 1986, 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 carried at acquisition cost.

Depreciation on cost is computed on the straight-line method over the estimated useful life of the depreciable assets as follows:

Furniture and Fixtures	5 years
Equipment	5 years
Building	30 years
Airconditioning	10 years

Elevator	10 years
Cars	5 years
Utility Vehicle	5 years
Computers	3 years

Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Major repairs to prolong the life of the fixed asset are capitalized.

E. Inventories

Supplies and materials are carried at cost and for inventory purpose cost is determined by the first-in, first-out method.

F. Land and Building

The account includes both the existing Salcedo office and the Valgoson property (Land of P22.500 million and Building of P11.454 million). The Valgoson property was purchased on July 25, 1990 from the Assets Privatization Trust under a Deed of Conditional Sale. The payment was in the form of Treasury Bills placed under Escrow account with Land Bank - Trust Department under Escrow Agreement between PDIC and APT.

G. World Bank Grant

The Japanese Export-Import Bank Facility thru the World Bank has approved a budget allocation for PDIC as one of the beneficiary government agencies, an amount of One Million Seven Hundred Six Thousand Five Hundred US Dollar (\$1,706,500.00) to be utilized exclusively for human resources development and systems and technology upgrading.

The account "Accounts Receivable-World Bank" is debited when payment is made for purchase of equipment or for services rendered and credited when reimbursement is received.

Donations/grants are debited to the appropriate asset or expense account and credited to the "Donated Surplus" capital account.