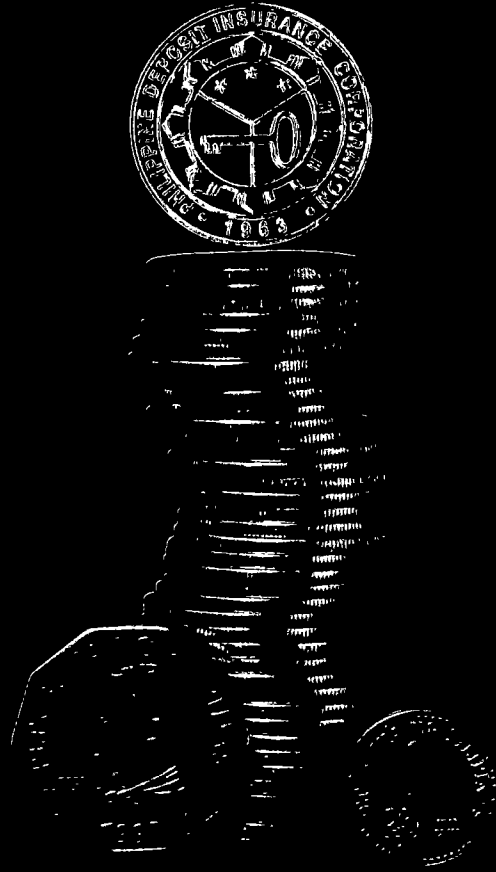


Building on Foundations of Responsiveness and Relevance



PHILIPPINE DEPOSIT
INSURANCE CORPORATION
The 1991 Annual Report

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PHILIPPINE DEPOSIT INSURANCE CORPORATION

Vitaliano N. Nañagas II
PRESIDENT

June 22, 1992

Her Excellency
President Corazon C. Aquino
Malacañang, Manila

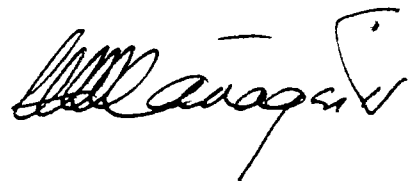
Dear Mrs. President:

I have the honor to submit the Annual Report of the Philippine Deposit Insurance Corporation (PDIC) for the year 1991, pursuant to the provisions of Section 15 of Republic Act 3591, as amended. This Annual Report serves to chronicle the Corporation's milestones as we build on foundations of responsiveness and relevance.

The PDIC looks forward to 1992 confidently as we face the challenge of change with a profound commitment to help lay the cornerstones of a responsible banking sector, a growing savings base, and a robust economy.

On behalf of the management and staff, once more I thank Her Excellency and reiterate our full support in the pursuit of national development.

Very respectfully yours,



PHILIPPINE DEPOSIT INSURANCE CORPORATION

Vitaliano N. Nañagas II
PRESIDENT

June 22, 1992

SIRS:

In accordance with the provisions of Section 15 of R.A. 3591, as amended, the Philippine Deposit Insurance Corporation is pleased to submit its Annual Report for the calendar year 1991.

Respectfully yours,



Hon. Neptali Gonzales,
The President of the Philippine Senate

Hon. Ramon Mitra,
The Speaker of the Philippine House
of Representatives

THE PRESIDENT'S REPORT

The year 1991 saw the marked beginnings of a proactive Philippine Deposit Insurance Corporation. Closure prevention and bank strengthening activities were more substantial. Deposit pay-offs were more efficient. The PDIC gained prominence as it assumed more closed banks of larger size under its receivership and liquidation.

We had to cope with some rather stubborn problems, though. The year 1991 was marked by calamities, a slight dip in Gross Domestic Product, inflation in the high teens, interest ranging from the high twenties to the mid-thirties, and investor confidence at an ebb.

Amid the hardships, private consumption and fiscal belt-tightening softened the effects of fortuitous events. Furthermore, significant reforms in government set the stage for long-term growth. There were signs that the setbacks were circumstantial and the Philippine economy was running on sound fundamentals.

There was a marked increase in joint ventures between local and foreign capital. Filipinos in joint ventures with foreigners upped their investments by 22.13% and foreigners with local partners raised their stakes by 39.92%. Although the number of tourists decreased, bigger spenders with an eye for longer term investments came to visit.

Prospects looked even more bullish when policy changes earned for the Philippines the seal of good housekeeping from the International Monetary Fund and the respect of the global community. Such major changes were the deregulation of trade, foreign exchange, and banking; the legislation of the Build-Operate-and-Transfer Law, Foreign Investments Code, and Local Governments Act; and privatization efforts.

Banks proved themselves as resilient as the economy. Principles of prudence guided their investment and lending decisions. Competition for deposits was intense. New branches and automated tellers (ATMs) proliferated.



Nevertheless, we feel that the different sectors of the banking system have their unique roles. Pursuing these roles will mean thinking beyond balance sheets and income statements and into active participation in development. We at the PDIC will support all efforts geared towards that direction.

The year 1992 heralds that promise. The PDIC Bill amending the PDIC Charter was passed by both Houses and signed into Law by Her Excellency President Corazon C. Aquino as Republic Act 7400 on April 13, 1992.

Now, the PDIC has a virtually wider scope of deposit insurance protection, expanded powers for closure prevention, and stronger legal authority over operating and failed banks.

Our Vision, Mission, and Value Statements continue to nurture a Corporate Culture of exemplary public service to guide our endeavors in promoting depositor confidence and strengthening the banking system.

Hence, on behalf of the management and staff of the PDIC, I am pleased to report our accomplishments.

PDIC IN THE ENVIRONMENT

The growth of the banking industry tapered slightly as it geared for an environment characterized by unstable income, higher risks, slower business, and lower returns on investments.

It was a year when the banks left less to chance. Investment and lending decisions were generally more prudent. The logical move was to beef up capital and stockpile reserves for possible losses.

Foreign exchange policies were liberalized. People had easier access to foreign currencies and related financial services from sources other than banks. Because of the steady recovery of the peso, foreign exchange trading was not as lucrative as in the previous year. Hence, banks resorted to the conventional product and service lines.

Lending rates remained erratic. A period of high interest raised past dues and defaults. As the year closed, however, oil prices stabilized, prime rates began to drop to the mid-teens, business improved, and bad debts were revived.

Treasury Bills provided high-earning risk-free assets from which banks could profit. Big savers the stock market and real estate. Thus, competition for deposits was intense. Savings campaigns and bank advertising was frenzied. Branches and automated tellers proliferated when requirements were relaxed.

For the strong banks, 1991 was a time to prevent losses and reinforce financial cushions. Others resorted to damage control and took the bitter pill of cost-cutting. A number simply folded up.

As a whole, the banking sectors, with their different products/services, sizes, clientele, and locations proved themselves resilient to the

business slowdown and responsive to structural economic changes.

Commercial Banks: Taking the Lead

Though comprising only 34 out of 932 banks in the country, commercial banks continue to dominate the Philippine financial economy. By virtue of their size and influence, these institutions lead the entire system.

Commercial banks have been at the forefront of technological, technical, and managerial innovations. They have introduced the benefits of information technology to banking personnel and to their clientele. They have also widened the variety of financial products and services offered, thereby facilitating specialization as well as competition. Systems development and internal controls have also been widely used in commercial banks and have helped professionalize management and reduced banking risks.

However, commercial banks have yet to innovate in terms of raising the real returns on depositors' investment. Savings deposit rates, for example, are way below inflation which serves as a disincentive to save in banks. For some banks, overseas remittances take too long when technology has actually cut the waiting time to between three to five days. Charges and fees are always an unpleasant surprise to the borrower and jack up the burden of repayment.

Globalization is fast becoming the trend. Therefore, Philippine commercial banks need to become competitive not only in financial savvy but also in cultivating clientele as long-term partners and not mere customers, as they prepare to expand their base of operations abroad and face new international rivals at home.

Thrift Banks: Seeking their Role

The thrift banking sector — savings and mortgage banks, private development banks, and stock savings and loan associations — are in a quandary as to their competitive advantage and development role.

Because of the trend towards less differentiation among financial institutions, thrift banks will be forced to contend with the larger commercial banks on an equal regulatory footing. Increasing efficiency, upgrading product and service lines, and targetting market niches are imperative for now.

Furthermore, thrift banks will do well to tap their geographic advantage. Many of them are based in regions that are experiencing an agro-industrial take-off, if not preparing for one. Among such regions are Central Luzon, Southern Tagalog, Western and Central Visayas, and Northern and Southern Mindanao.

With their strategic advantage and financial experience in these areas, thrift banks can avail of relending facilities and tap the market that the Central Bank and the Development Bank of the Philippines have veered away from. They can eventually become the specialists in long-term lending and brokers in developmental financing.

Rural Banks: Struggling with Competition

Since their inception in 1953, great expectations had been pinned on the rural banks as

providers of financial services and reasonable credit to the countryside.

Almost three decades later, despite generous attempts by government to provide technical assistance, cheap relending facilities, and investments in Treasury Bills, the majority of rural banks are still saddled with bad loan portfolios and huge payables to the Central Bank and other government financial institutions. Moreover, most rural banks suffer from smallness and insufficient capital.

Basically, these problems have stifled the progress of this vital banking sector and its capacity to generate deposits, assume larger credit risks, and play a role in the important aspects of the communities' economic activities.

Today, rural banks are faced with stiffer competition. Informal lenders still prevail in the rural areas. Commercial and large thrift banks are in a rush to expand their branching networks. Cooperatives are swiftly and steadily growing in number and influence.

However, the ingredients for successful rural banking are present and the formulae proven by a large number of profitably run and steadily growing countryside financial institutions.

The strategy consists of: capital build-up through mergers and consolidation or a regular infusion of additional investments; aggressive deposit campaigns; correspondence with commercial banks and other forms of competitive collaboration; active participation on government programs and availment of incentives; and, most importantly, professional management and lending policies.

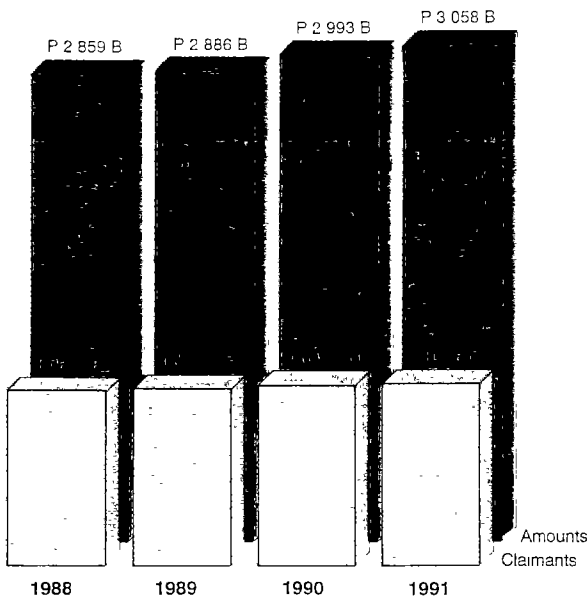
CLAIMS MANAGEMENT

Claims Payment

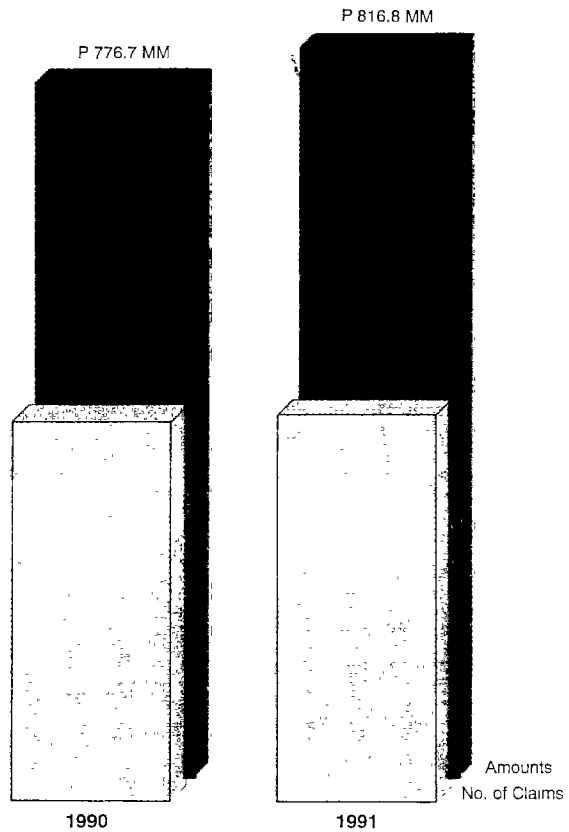
Over the year, 13,750 claims amounting to P64.74 million were paid. Since the first payoff in 1970, therefore, 1,109,811 depositors have received P3.06 billion from PDIC.

As of the first quarter of 1991, our pending claims were down to zero. All claimants are immediately paid, if not advised that their claims are problematic or lacking additional documents and brought to our claims assistance operation.

TOTAL CLAIMS PAID



**CLAIMS PAID THROUGH
TRANSFER DEPOSIT MODE**



Hence, the transfer deposit system is being upgraded until it becomes a regular mode of claims payment.

Transfer Deposit Mode

The transfer deposit payoff scheme was extensively used for the convenience of the depositors, who no longer have to wait for a payoff team before they can receive payments, experience faster service, and have the option of having a new account in a more stable institution. Furthermore, it has more controls in place and costs the PDIC less than deploying teams.

The transfer deposit scheme allows claims in closed banks to be filed with an operating bank. The Land Bank of the Philippines has served as the transferee bank for the Mindanao Savings and Loan Association and the Peninsula Development Bank. Around 1,989 claims amounting to P44.7 million are being processed through this alternative mode as of December 31, 1991.

PAID CLAIMS

(Cumulative and 1991 Figures)

Amounts in Thousand Pesos

BANK	Cumulative as of December 31, 1991		Payments For Year 1991	
	NO. OF ACCOUNTS	AMOUNT	NO. OF ACCOUNTS	AMOUNT
Commercial Banks	238,862	969,090	698	6,408
Thrift Banks	701,632	1,827,524	7,279	39,987
Rural Banks	169,317	261,320	5,593	18,347
TOTAL	1,109,811	3,057,934	13,570	64,742

STATUS OF CLAIMS

(Amounts in Million Pesos)

	December 31, 1991		December 31, 1990	
	NO. OF ACCOUNTS	AMOUNT	NO. OF ACCOUNTS	AMOUNT
Awaiting Claimants	12,085	4.2	12,060	4.5
For Processing	1,989	44.7	35	0.3
Referred to Legal Department	1,047	6.3	1,919	31.9
Insufficient Documents	58,602	658.8	57,763	645.3
TOTAL	73,723	714.0	71,777	682.0

LEGEND

Awaiting Claimants: These are claims that remain uncollected by depositors and 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 duly informed by mail of their deficiencies.

INSURANCE ACTIVITY

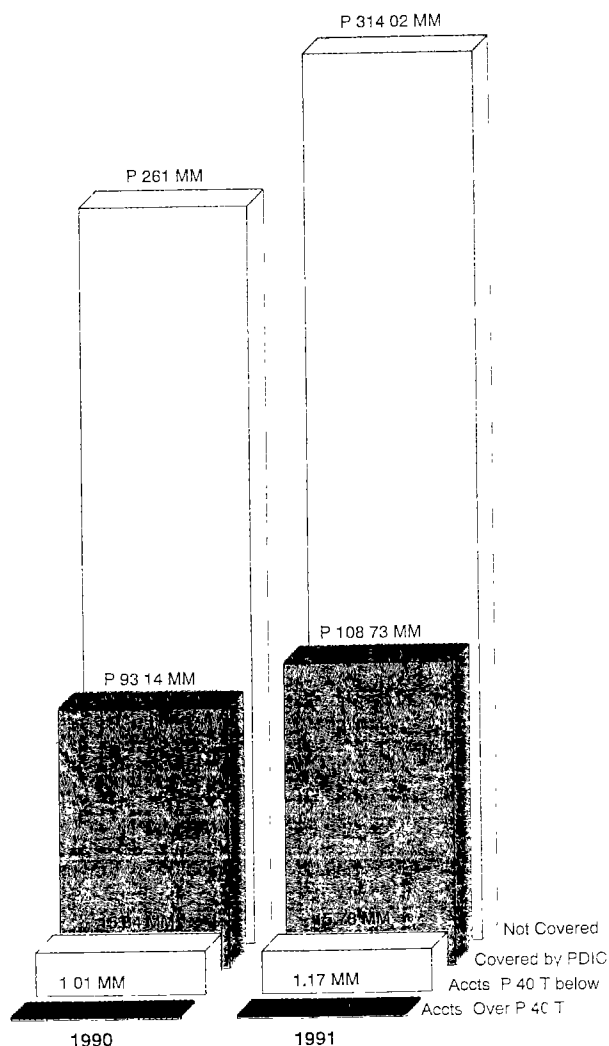
PDIC Membership

The banking system saw on the one hand the closure of nine rural banks. On the other hand, one private development bank, Urban Bank, officially joined the ranks of the commercial banks while the Cooperative Rural Bank of Quezon Province opened in 1991.

MEMBERSHIP BREAKDOWN

BANK GROUP	1991	1990
Commercial Banks	31	30
Thrift Banks	100	103
Savings and Mortgage	7	7
Private Development	38	40
Stock Savings and Loan	55	56
Rural Banks	796	804
Specialized Government Banks	3	3
TOTAL	930	940

Deposits Insured by PDIC



PDIC Risk Exposure

Risk exposure rose to P108,712.90 million, or 25.72% of total deposits, in 16.95 million accounts. As the maximum deposit insurance been raised to P100,000 in 1992, the projected increase in risk exposure is about 39% of total deposits.

Measures for collecting premiums, deficiencies, penalties, and charges were beefed up to reinforce the deposit insurance safety net. Premium collections reached P316.11 million, 24% higher than in 1990. We have conducted audits for compliance with assessment regulations on all banks member banks.

RECEIVERSHIP & LIQUIDATION

The PDIC broke the trend of taking over closed banks from the Central Bank of the Philippines (CBP) by assuming six failed rural banks upon their closure.

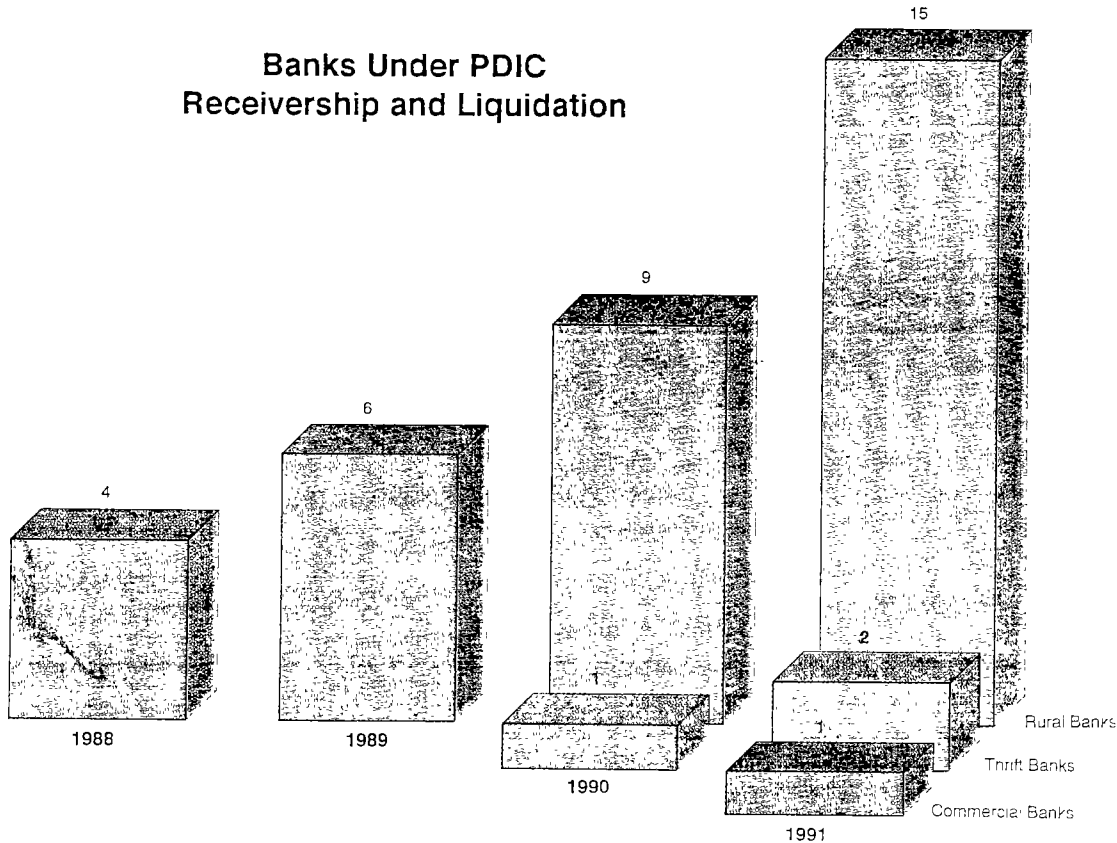
Furthermore, our enhanced capability to assume larger banks was tested in taking over the liquidation activities for the Pacific Banking Corporation, which has over 38 branches nationwide.

This brings to a total of 18 failed banks (one commercial bank, two thrift banks, and 15 rural banks) under PDIC's direct supervision, despite a receivership and liquidation officer and staff size of 66.

The PDIC continues to refine its procedures and systems. Training and development programs, information technology, and field expansion will further bolster the PDIC's presence in the supervision of closed banks. For now, the complexity of the receivership and liquidation activities from the CBP hinges on the hiring of qualified personnel.

Meanwhile, the Acquired Assets Management Office (AAMO) has also developed and implemented its audit and quality review systems over all banks under receivership and liquidation. Through the AAMO's audit and control programs, PDIC's authoritative presence shall be felt over all failed banks.

**Banks Under PDIC
Receivership and Liquidation**



The PDIC has assumed receivership over nine more closed rural banks and one thrift bank immediately upon their closures. The PDIC also assumed authority as the liquidator of Pacific Banking Corporation, its first commercial bank with over 38 branches.

RISK MANAGEMENT

Monitoring Activities

For the first time, we exercised our examination function. Under an experimental risk monitoring system devised with the assistance of SGV and Co., limited scope examinations were conducted on a selected sample of commercial and thrift banks. Moreover, our statistical database was upgraded into an essential component of off-site monitoring.

Financial Strengthening

Financial assistance activities were brisk. Two banks benefited from PDIC's lending facilities of P900 million. Another bank was extended a credit line of P320 million. The PDIC continues to expand its capacity to provide financial assistance and has earmarked funds to meet all possible requirements.

To further the advance of strong rural banks, we campaigned for more liquidity pools. Seven more were formed by some 72 rural banks, bringing the number of liquidity pools in operation to 20 involving 326 rural banks; all will eventually be self-reliant in emergency cash crunches. We conduct regular surveys on the pool members to monitor their compliance and performance.

Mergers and Consolidation

We ventured into new areas of bank strengthening. The PDIC provided technical assistance and management advice in the privatization efforts of a government owned and controlled commercial bank. The PDIC was likewise involved in mergers and acquisitions between: a savings and mortgage bank and a stock savings and loan association; one private development bank and a rural bank; a commercial bank and a savings and loans association; and one universal bank and 13 rural banks.

System-wide Enhancement

The Countryside Financial Institutions Enhancement Program (CFI-Enhance), which the PDIC spearheaded in close partnership with the Land Bank of the Philippines and the CBP, was our centerpiece of risk management. The promulgation of the CFI-Enhance on August 31, 1991 ushered fresh hopes to transform the rural banks into formidable agents of countryside development.

Through the program, rural banks would be relieved of their debt burden with the government, raise their net worth and lending capacity, and would be encouraged to consolidate their resources to benefit from scale economies through mergers (see Box).

We project that over 300 rural banks will participate. Five mergers among rural banks and thrift banks are expected to benefit from the program before it ends in the second quarter of 1992.



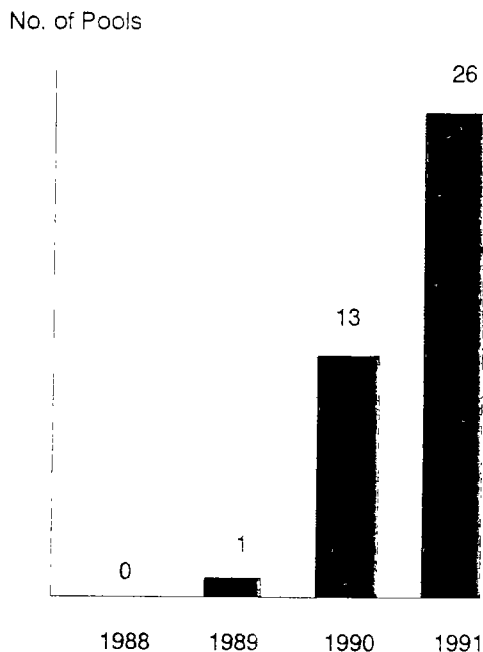
PDIC President promoting proactive involvement among rural bankers through the CFI-Enhance program.

Liquidity Pools

Liquidity pools encourage rural banks to contribute a portion of their cash in a pool that the LBP will match peso-for-peso. The pools are invested in high-yielding, risk-free government securities but can be availed of by member banks in the event of a liquidity crisis. Further, the PDIC maintains a credit line in case more funds are needed.

Strict criteria for qualification are set by the PDIC, the LBP, and the members themselves. The high standards and peer pressure serve as effective informal early-warning systems that the members themselves initiate and implement.

Liquidity Pools are Growing in Number



Information Services

The Communique is a quarterly publication of the corporation that discusses socio-economic issues relevant to countryside financing and development. It also provides quarterly data on deposit levels and reviews trends in the banking sectors as well.

The second edition of the Financial Schemes Available to the Philippine Countryside, containing 43 sources of low-cost credit, was launched in March as a PDIC-Kabisig project. The data provides opportunities for the rural banks and other entrepreneurs to improve their earnings and financial stability.

Financial templates are computer-designed spreadsheets that can be used for evaluating financial projections based on business plans and objectives. They are currently being used to evaluate the viability of planned mergers and consolidation. They will be further utilized in assessing the formation of bank holding companies.

Countryside Financial Institutions Enhancement Program

In a joint study with the Central Bank of the Philippines (CBP) and a mission from the International Bank for Reconstruction and Development (IBRD) in November 1990, the PDIC realized that 529 or two thirds of all rural banks at the time were suffering from capital inadequacy by P1.26 billion while the remaining third or 272 had an idle lending capacity of P6.08 billion.

The PDIC, CBP, and the Land Bank of the Philippines (LBP) resolved that a comprehensive program for strengthening the rural credit delivery system be formulated and negotiated with the IBRD.

All throughout the first semester of 1991, the PDIC spearheaded the intensive research and development efforts in close coordination with the CBP and the LBP, as well as in consultations with rural bankers.

Hence, the CFI-Enhance was devised and launched on August 31, 1991 at the CBP. Agreements were formally signed by the Secretary of Finance Honorable Jesus P. Estanislao, the Governor of the CBP Honorable Jose L. Cuisia, Jr., and the Presidents of the PDIC and LBP Messrs. Vitaliano N. Nañagas II and Deogracias N. Vistan respectively in the presence of Her Excellency President Corazon C. Aquino on October 29, 1991 in Malacañang, Manila.

By the end of the year, the CFI-Enhance had been promoted and detailed to the various rural bank confederations through roadshows all over the Philippines.

The CFI-Enhance has been designed to address the debt burden of countryside banks,

increase their capital base, raise their profitability, avail of economies of scale, and improve their competitive position vis-avis larger urban-based banks through its three modules.



Module One: Two-for-One

The two-for-one module comprises a framework wherein existing or new investors of a rural bank can infuse fresh equity in exchange for a reduction in its outstanding arrearages with the CBP. For every P1.00 put in, the CFI can liquidate P2.00 of its unpaid debts with the CB, thereby increasing its net worth by P2.00 (P1.00 paid-in capital and P1.00 in surplus reserves or some other capital account).

All arrearages are eligible for liquidation whether or not they are covered by an existing plan of payment with the CB, including those which were not converted into preferred shares issued.

CFIs participating in this module have the opportunity to clean their balance sheet and at the same time increase their capital base. The CFIs are then in a better position to attract deposits and obtain higher rediscounting limits with the CB or LBP.

Module Two: One-for-One

The one-for-one scheme means for every P1.00 of fresh capital infused by a rural bank, LBP would match this by the same amount.

Eligible CFI's are those with: a past due ratio of not more than 50%, a capital to risk asset ratio of not less than 10%, and at least 60% of their loan portfolio are either in agriculture production and related livelihood activities.

Further, this module provides participating CFIs with the same opportunity to enhance its capital base while at the same time increase its liquidity position.

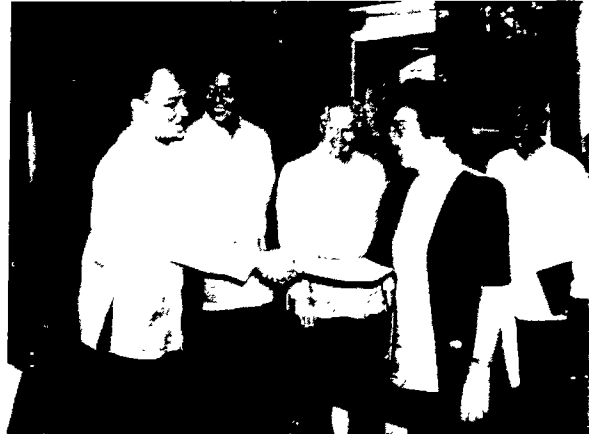
Module Three: Mergers and Consolidation

This module provides incentives for rural banks to merge, consolidate, or form

holding companies among themselves to raise their economies of scale, expand their network, and increase their capacities to generate savings and extend credit.

First, the PDIC shall extend credit at concessional rates through which the merging institutions can earn a fixed spread from government securities and write-off their bad debts. The amount and terms of the loan shall depend on the variance of financial conditions among the merging banks, the consolidated unimpaired private capital, and qualitative factors that reflect professionalism and soundness, and impact on rural business activities.

Then, the LBP shall match any incremental capital infusions by a ratio of more than one-to-one depending on the number of banks and the viability of the merger.



Heads of Central Bank of the Philippines, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation sign Agreements of Undertaking at the Malacañang Palace in the presence of Her Excellency President Corazon C. Aquino

HUMAN RESOURCES

Meritocracy in Public Service

Recruitment and selection this year was rigorous. PDIC maintains high standards for screening, testing, and background checks on its applicants. Nonetheless, career opportunities provided employees with a determinate professional path within the framework of a meritocracy.

Performance appraisals are done on a normal curve-forced rating system. Likewise, productivity incentive awards based on output and contribution to total Corporate performance were classified under a normal curve. This system has served to establish standards of performance, conduct, and consistency.

About 54 employees were promoted, 18 of which were advancements to official positions, on the basis of a careful evaluation of accomplishments, endeavors, and proven potential to assume higher responsibilities by the executive officers and the Selection and Placement Committee wherein officers and rank-and-file were duly represented.

The Chairman's and Presidential Awards were given to officers and rank-and-file, respectively. They are an effective means of publicly acknowledging heroic efforts, exceptional performance, and exemplary public service to serve as examples to the PDIC employees.

Training and Development

The Comprehensive Human Resource Development Plan, programmed to transform novices into seasoned analysts and executives, was implemented. Great effort was expended on training and development in 74 seminars covering 3,166 days conducted in-house and by prestigious institutions here and abroad. Topics ranged from trades and crafts to specialized technical skills and executive development.

Employee Welfare

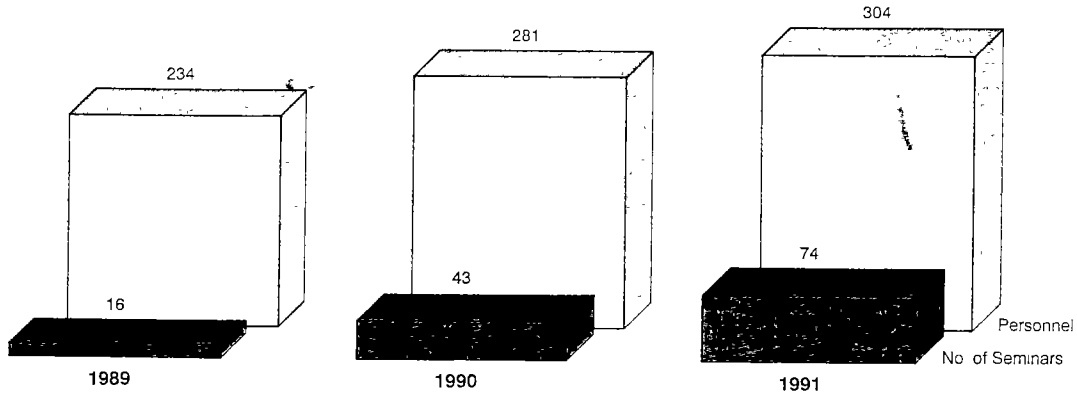
Employee welfare was further promoted through the extension of medical care insurance and GSIS coverage and the establishment of formal (i.e., grievance machinery) and informal (i.e., InterCom, the quarterly Corporate newsletter) media for Corporate communications, dialogue, and feedback.

Civic Consciousness

Management and staff also engaged in civic activities that deepened their social commitment, such as sponsoring scholarships for out of school youth, assisting the less fortunate, and providing relief to areas stricken by the Mount Pinatubo eruption.

Human Resource Development

GROWTH IN HUMAN RESOURCES AND TRAINING AND DEVELOPMENT



The average PDIC employee has benefited from at least two training opportunities in the year.



Trainings were conducted by either PDIC, agencies here and abroad, or in partnership with prestigious specialized institutions in the public and private sectors.

SYSTEMS ENHANCEMENT

Internal Controls

The major component of the internal audit program is the Operations Quality Reviews (OQRs). OQRs have been conducted and completed for all departments of the PDIC to ensure that all major operational aspects are monitored for strict compliance with government regulations and standards of professionalism and ethics. In the process, some 22 policy and operations manuals were approved by the Board and more are under revision.

The succeeding OQRs shall bear more weight. Departmental evaluation and rating systems with corresponding sanctions and incentives have been approved by the Board and shall be firmly applied.

Other than feedback and audit assessments, we also had feedforward mechanisms. Planning and objective-setting sessions were conducted twice in the year.

Information Technology

In contrast to 1988 when there were no computers, PDIC now has 143 personal desktops and laptops to serve our 337 employees. The massive computerization was made possible by a grant under the auspices of the World Bank and the Japanese Export-Import Bank.

Setting the stage for this quantum leap in technology is the Information Systems Strategic Plan (ISSP), drawn and formulated by the Electronic Data Processing (EDP) Department and approved by duly mandated government agencies.

This is a comprehensive, corporate-wide computerization plan. It incorporates the short to long term strategy that will raise the efficiency and effectivity of the different line and staff support services through information technology.

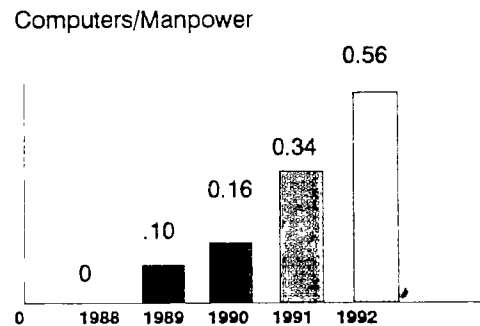
The ISSP has begun with the computerization of several departmental databases, accounting processes, and routine tasks. Major guidelines for maintenance, security, and systems development have likewise been approved and are operational.

More computer hardware and software have been acquired from licensed sources to ensure their quality, performance, and maintenance. Adequate controls and procedures have been placed to check computer viruses, security breaches, and other hazards. Eventually, corporate communications shall be disseminated electronically.

Information technology-related training and development has been continuous and accessible not only to EDP staff but to all employees. Management and staff were encouraged to utilize computers in assisting and accelerating their work.

Since information technology has become inextricably linked with PDIC's day-to-day operations, computer literacy among employees is upbeat. Regular orientations and skills training remain at a frenzied pace.

Rapid Computerization



* As of April 1992

LEGAL SERVICES

Legal Services

The Legal Services Department was active in the preparation and extension of advice and opinions on payoff related activities, eligibility for claims, and definition and classification of deposits, determination of insured status and obligations.

Legal Advocacy

Early in 1992, the Senate and the House of Representatives passed Senate Bill 1539 which President Corazon C. Aquino signed last April 13, 1992 into law as R.A. 7400 which amends R.A. 3591. Hence, the deposit insurance coverage has been raised to P100,000, the Permanent Insurance Fund has been increased to

P3 billion, and the PDIC's legal powers and supervisory authority has been expanded.

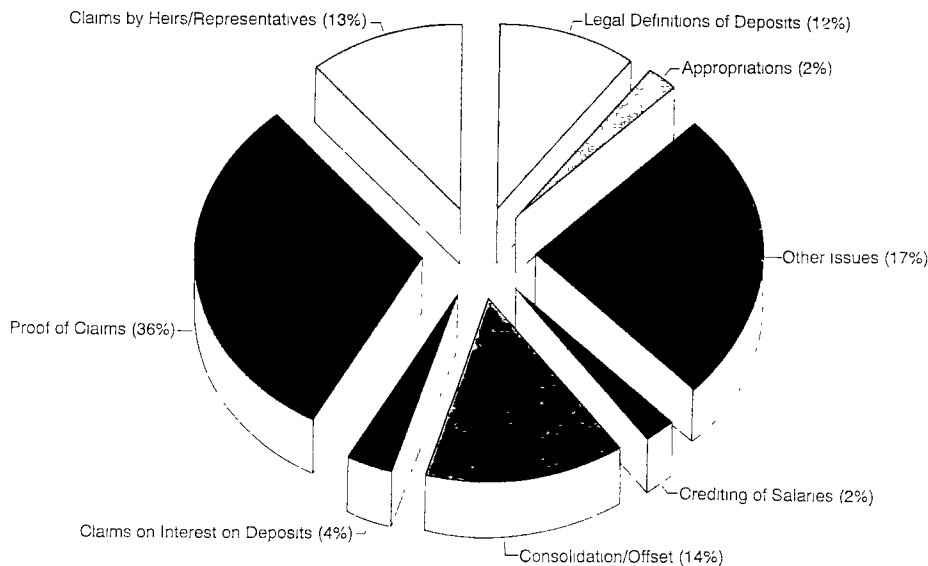
Litigation

Litigation and other cases were initiated, attended to, and filed involving two closed thrift banks and one rural bank. Inventory and audit of one closed commercial bank has commenced upon the PDIC's assumption of its liquidation.

Special Investigations

Special investigations were initiated and conducted on one commercial bank, two thrift institutions, and four rural banks for unsafe and unsound banking practices and mismanagement. Evidence was compiled to in preparation for the filing of charges against the perpetrators.

LEGAL ADVISORY SERVICES



With the PDIC's growing involvement, the Legal Services Department was active in the preparation of 78 advice and opinions on the definition, classification, and other issues on deposit insurance, coverage, and claiming rights.

STRATEGIC DIRECTIONS

The PDIC's basic strategy is to pursue its proactive role in the Philippine Banking System and build on the foundations set by R.A. 7400 amending R.A. 3591.

Primary on the agenda is the implementation of the new law and the bolstering of the PDIC's resources, organizational strength, and operational efficiency.

The PDIC shall exert its legal powers and authority in the investigation into unsafe and unsound banking practices in both closed and operational banks and the issuance of cease and desist orders against erring bank officers and personnel.

We shall expand our capabilities in closure prevention activities. Time and resources shall be spent on the research and development of monitoring systems for risks in the banking industry. Moreover, the PDIC shall also explore and formulate pioneer approaches to financial assistance and bank strengthening.

Relationships with other government financial institutions and international agencies will be built up and strengthened. The PDIC shall endeavor to participate in programs and advocate policies that spur the banking sector to be more relevant to the country's development needs.

Private banks will eventually be commissioned in our transfer deposit pay-offs. Moreover, the PDIC shall explore other modes of paying claims that are cost efficient, process-oriented, and convenient to the depositor, such as postal money orders.

Furthermore, the PDIC shall continue expanding its capacity for receivership, liquidation,

and monitoring of all closed banks of varying sizes, clientele, and locations. It shall also terminate liquidation proceedings of at least two commercial banks and four rural banks.

To ensure the quality of service and the level of competence among its people, strict recruitment standards and screening procedures shall be upheld, training and development shall be more relevant, and the capacity for conducting institutionalized and continuous education shall be strengthened.

Systems and procedures shall continue to be upgraded and fine-tuned by feedback from experience, the conduct of new internal audit programs such as the service quality reviews to uphold performance standards, productivity boosting campaigns, and applications of state-of-the-art information technology. Corporate communications shall be conveyed through the use of local area networks.

In addition, the Corporation expects to be able to fully insure 97.58% of all accounts, or 39.36% of total deposits under the Charter as amended in 1992, which authorizes a maximum deposit insurance coverage of P100,000. Hence, to gird itself for a larger financial risk, the PDIC shall endeavor to widen its earnings base, tap cheap sources of credit, provide adequate reserves for insurance losses, and boost operational efficiency. Innovative investment policies and forecasting systems will increase our financial strength and independence.

As we pursue this strategy, our commitment to the Corporate Vision, Mission, and Beliefs shall deepen. More open dialogue, constructive feedback, and proactive team-building in an atmosphere of professionalism and transparency shall be fostered.

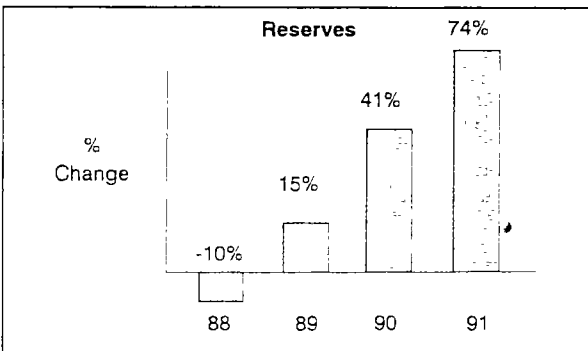
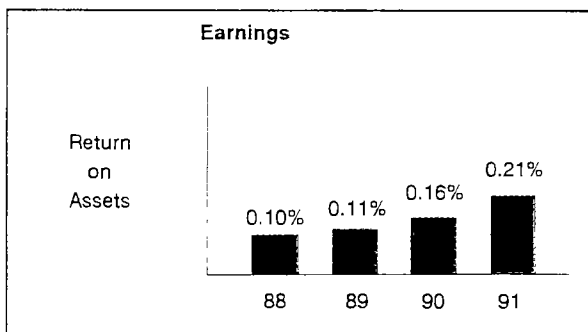
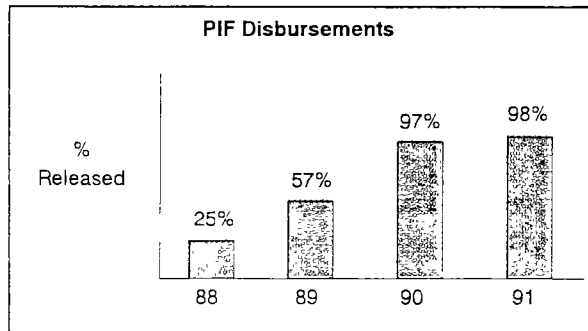
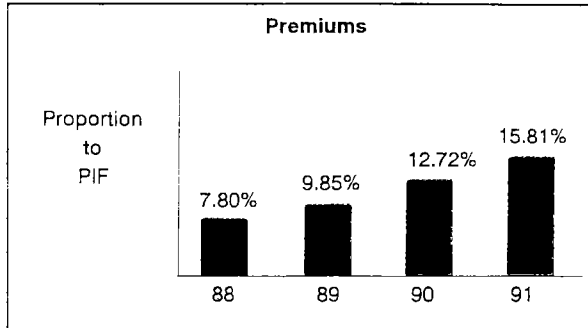
FINANCIAL CONDITION

Financial Performance

The PDIC's financial strength was reinforced in 1991. As a result of improved premium collections and investment policies in government securities, gross revenues hit an all time high of P1,073.57 million, 30.41% higher than previous year's P823.23 million.

Current assets, consisting of liquid assets and marketable securities, grew 9.80% from P3.47 billion in 1990 to P3.81 billion. Hence, the PDIC has reinforced its earnings and liquidity base to an acceptable level.

Resources expanded by 3.62% to P8.02 billion from P7.74 billion in 1990. The Deposit Insurance Fund stood at P2.09 billion compared to the preceding year's P2.05 billion -- a hike of 1.95%.



Summary of Financial Condition (in millions)

	1988	1989	1990	1991
Premiums	136.05	197.23	254.38	316.11
PIF Disbursed	508.75	1,075.00	1,945.50	1,973.49
Earnings	6.19	10.19	12.31	16.48
Reserves	500.45	575.74	813.36	1,412.15

FINANCIAL HIGHLIGHTS

SUMMARY OF FINANCIAL PERFORMANCE

	1991	1990	CHANGE	
			Amount	Percent
TOTAL ASSETS	7,975,368	7,740,999	234,369	3.03%
Currents Assets	3,772,106	3,474,671	297,435	8.56%
Assets Acquired in Bank Assistance and Subrogated Deposits	4,122,388	4,205,037	(82,649)	-1.97%
Property and Equipment	68,606	49,298	19,308	39.17%
Other Assets	12,268	11,994	274	2.29%
TOTAL LIABILITIES	5,897,135	5,689,657	207,478	3.65%
Current Liabilities	597,921	673,953	(76,032)	-11.28%
Long-term Liabilities	3,548,160	3,890,256	(342,096)	-8.79%
Other Liabilities and Deferred Credits	338,906	312,085	26,821	8.59%
Allowance for Insurance Losses	1,412,148	813,363	598,785	73.62%
DEPOSIT INSURANCE FUND	2,078,233	2,051,342	26,891	1.31%

RESULTS OF OPERATION

Total Income	1,073,616	823,230	250,386	30.42%
Total Expenses	393,730	389,563	4,167	1.07%
Operating Income				
Before Provision for Losses	679,886	433,667	246,219	56.78%
Less: Provision for Losses	663,406	421,356	242,050.00	57.45%
Net Income	16,480	12,311	4,169	33.87%

INCOME AND RETAINED EARNINGS
(Amounts in Thousand Pesos)

	1991*	1990
INCOME	1,073,616	823,230
Assessment Income	316,111	254,382
Interest Earned	159,011	169,232
Earned Discounts	597,480	399,594
Miscellaneous Income	1,014	22
EXPENSES	393,730	389,563
Personal Services	41,528	35,533
Management Expenses	6,643	1,846
Property Expenses	3,934	1,799
Communications	761	541
Interest Expenses	330,472	339,279
Travel	1,436	1,261
Taxes	191	156
Others	8,765	9,148
INCOME BEFORE PROVISION FOR INSURANCE LOSSES	679,886	433,667
Provision for Insurance Losses	663,406	421,356
NET INCOME	16,480	12,311
RETAINED EARNINGS, January	51,342	30,842
Add: Prior Year's Adjustment	10,411	8,189
RETAINED EARNINGS	78,233	51,342

*Unaudited

CONSOLIDATED STATEMENT OF CONDITION

(Amounts in Thousand Pesos)

	1991*	1990
CURRENT ASSETS	3,772,106	3,474,671
Cash, including Short-term Deposits	2,072	1,903
Payoff Funds	99,198	122,463
Due from CB (PDIC Account)	10	130
Philippine Government Obligations (Note A)	3,611,591	3,221,307
Permanent Insurance Fund Receivable	26,513	50,500
Due from Officers and Employees	25	
Accounts and Other Receivables	30,813	78,144
Inventory of Supplies and Materials	432	74
Prepaid Expenses	1,452	149
ASSETS ACQUIRED IN BANK ASSISTANCE AND DEPOSIT SUBROGATED TRANSACTIONS	4,122,388	4,205,037
PROPERTY AND EQUIPMENT Net of Accumulated Depreciation	68,606	49,298
OTHER ASSETS	12,268	11,994
TOTAL ASSETS	7,975,368	7,740,999
CURRENT LIABILITIES	597,921	673,953
Accounts Payable - various	3,683	6,014
Accounts Payable - PNB	312	202
Due to Officers and Employees	733	11,647
Estimated Subrogated Claims Filed Payable	170,987	172,855
Estimated Subrogated Claims Payable	422,206	483,219
Due to Payoff Funds		16
LONG-TERM LIABILITIES	3,548,160	3,890,256
Notes Payable	2,750,000	2,750,000
Accrued Interest Payable - CB	798,160	1,140,256
OTHER LIABILITIES AND DEFERRED CREDITS	1,751,054	1,125,448
Accounts Payable - Perpetual Savings Bank	1,000	1,000
Deferred Assessment Income	31	46
Unearned Discount	327,275	311,039
Provision for Retirement	10,600	
Allowance for Insurance Losses (Note B)	1,412,148	813,363
TOTAL LIABILITIES	5,897,135	5,689,657
DEPOSIT INSURANCE FUND	2,078,233	2,051,342
Permanent Insurance Fund	2,000,000	2,000,000
Retained Earnings	78,233	51,342
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND	7,975,368	7,740,999

*Unaudited

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

	1991	1990
INCREASE (DECREASE) IN CURRENT ASSETS	(438,384)	763,161
Cash	169	6,264
Payoff funds	(23,264)	19,817
Permanent Insurance Fund	23,988	(454,500)
Accounts & Other Receivables	(47,331)	20,682
Philippine Government Obligations	(390,284)	1,170,923
Other Current Assets	(1,661)	(25)
 INCREASE (DECREASE) IN CURRENT LIABILITIES	 418,349	 613,980
Accounts Payable and Accrued Expenses	344,428	340,798
Accounts Payable - PNB	110	(104)
Other Payables	73,811	273,286
 INCREASE (DECREASE) IN WORKING CAPITAL	 (20,034)	 149,181

MANAGEMENT

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

DIOSDADO M. MACAPAGAL, JR.
Undersecretary
Department of Finance
Director

EXECUTIVE OFFICERS



VITALIANO N. NAÑAGAS II
President



NIEVELEÑA V. ROSETE
Senior Vice President
Corporate Services Sector



CAESAR OCTAVIUS V. PARLADE
Senior Vice President
Examination, Assessment & Insurance



OFFICE OF THE PRESIDENT & ANCILLARY SECTORS

(Sitting from Left to Right): Rosola A Vivas, Catherine F. Bamba, Rosalinda U. Casiguran. Zenaida A. Villaroman, Pauline F. Tamesis
(Standing from Left to Right): Jose Alexander J. Festin, Avelino T Iglesias, Armando L. Quilala, Rodante G. Pineda, Jesus G. Serrano, Ester B. Binalla, Filomena E. Jongco, Odette L. Rio, Juan V. Lanting, Pablo Y. Romero, Jr., Joffre V. Balce



CORPORATE SERVICES SECTOR

(Sitting Left to Right) Ma Elena E. Bienvenida, Josefina G. Coligado, Nieveleña V. Rosete, Glorification M. Nocos
(Standing Left to Right) Zenaida P. Bautista, Eleanor B. Lopez, Esther Lily J. Acena, Imelda M. Rienda, Flordeliz C. Porsovigan.

Vision Mission and Beliefs

Our Vision is for a PDIC that is:

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

Our Mission:

- to promote and strengthen the Philippine banking system through the timely, effective, efficient monitoring, examination and handling of financial assistance.
- to 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 and liquidation function, the judicious rehabilitation of closed banks, and the dissemination of information on these missions.



**EXAMINATION ASSESSMENT & INSURANCE
SECTOR**

(Sitting from Left to Right). Jaime H Gillego, Caesar O.V. Parlade, Geronimo V. Ambe

(Standing from Left to Right). Sandra P. Arce, Josefina A Reyes, Rescina S. Bhagwani, Ma. Goretti I. Jimenez, Jocelyn J. Nepomuceno



**CLAIMS RECEIVERSHIP & LIQUIDATION
SECTOR**

(Sitting Left to Right) Anita R Gongon, Elizabeth E. Oller, Teresita D Gonzales, Regina R Fajardo, Merhe M. Canaverall.

(Standing Left to Right) Edgar C. Ante, Teodoro E. Gallardo, Vitaliano N Nañagas II, Josephine C Gonzales, Elenita B. Vidal, Antonio V. Marquez, Edita D Villar, Aurora C Baldoz, Renato N. Pulido.

We Believe...

- that exemplary public service in the pursuit of our mission is a basic foundation of PDIC's ability to contribute to national development.
- that professionalism, teamwork, and resourcefulness are the best means to achieve our mission.
- that improvement of PDIC product/service delivery system is a continuous endeavor.
- that our people are the most important resource.

Board of Directors

Jose L. Cuisia, Jr.	Chairman
Vitaliano N. Nañagas II	Vice Chairman
Diosdado M. Macapagal, Jr.	Director

Executive Officers

Vitaliano N. Nañagas II	President	
Nievelena V. Rosete	Senior Vice President	Corporate Services Sector
Caesar Octavius V. Parlade	Senior Vice President	Examination, Assessment and Insurance Sector

Vice Presidents

Rosalinda U. Casiguran	Vice President	Office of Chief Legal Counsel
Catherine F. Bamba	Vice President	Special Services

Assistant Vice Presidents

Roberto S. Federis	Assistant Vice President	Special Investigations Office
Ma. Elena E. Bienvenida	Assistant Vice President	Corporate Services Sector

Managers

Flordeliz C. Porsovigan	Accounting Department
Elenita B. Vidal	Acquired Assets Mgt. Office
Eleanor B. Lopez	Administrative Department
Teodoro E. Gallardo	CRL-IA
Josephine C. Gonzales	CRL-IB
Aurora C. Baldoz	CRL-IIA
Edita D. Villar	CRL-IIB
Ma. Regina R. Fajardo	CRL-IID
Rescina S. Bhagwani	EAI-IA
Josefina A. Reyes	EAI-IB
Rosola A. Vivas	EDP Department
Armando L. Quilala	Management Services Office
Joffre V. Balce	Planning Department

Assistant Managers

Henry R. Siriban	Administrative Department
Sandra P. Arce	EAI-IA
Jaime H. Gillego	EAI-IIA
Ma. Goretti I. Jimenez	EAI-IIA
Avelino T. Iglesias	Legal Department
Jesus G. Serrano	Litigation Department
Pablo Y. Romero, Jr.	Litigation Department
Zenaida A. Villaroman	Management Services Office
Pauline F. Tamesis	Planning Department

Corporate Executive Officers

Anita R. Gongon
Elizabeth E. Oller
Antonio V. Marquez
Edgar C. Ante
Merlie M. Cañaverol
Renato N. Pulido
Levy C. Cruz
Teodoro Jose D. Hirang
Rodolfo R. Anaya
Jocelyn J. Nepomuceno
Geronimo V. Ambe
Rodante G. Pineda
Jose Alexander G. Festin
Odette Carmina L. Rio
Filomena E. Jongco
Josefina G. Coligado
Ester B. Binalla
Teresita D. Gonzales

Division Chiefs

Esther Lily Jeanne Q. Aceña
Imelda M. Rienda
Glorificacion M. Nocos
Zenaida P. Bautista
Luis Ma. Gil L. Gana
Araceli H. Tabac
Juan V. Lanting

Division Chief III
Division Chief III
Division Chief III
Division Chief III
Attorney IV
Medical Officer V
Security Officer V

Acquired Assets Mgt. Office
CRL-IA
CRL-IA
CRL-IA
CRL-IA
CRL-IA
CRL-IA
CRL-IA
CRL-IA
EAI-A
EAI-IB
EDP Department
EDP Department
Legal Department
Management Services Office
Treasury Department
Office of the President
Office of the President

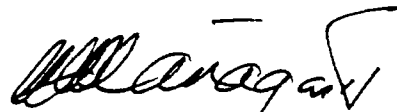
Administrative Department
Accounting Department
Treasury Department
Treasury Department
Legal Department
Administrative Department
Administrative Department

CRL - Claims, Receivership and Liquidation
EAI - Examination, Assessment and Insurance

ACKNOWLEDGMENTS

I speak on behalf of the entire Corporation in expressing our profound gratitude to the national government, the member banks, the depositing public, international agencies, and other friends in the private sector. Without their cooperation, our many hopes would not have materialized into concrete accomplishments.

We wish to reiterate our commitment to fulfilling our mandate to strengthen public confidence in the Philippine banking system. Once more, the PDIC extends its invitation to everyone in sharing our hope and aspirations in actively participating in the task of national development.



VITALIANO N. NAÑAGAS II
President

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 in 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. A monthly reserve was provided from total income earned after deducting operating expenses for the period. The provision had 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, Manila Bank, Philippine Veterans Bank and two other thrift banks. The reserve provided in the past eighteen years has had an annual average of P79, 737,601.41.

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 accounts 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.

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 asset as follows:

Furniture and Fixtures	5 years
Equipment	5 years
Building	30 years
Airconditioning	10 years
Elevator	10 years
Cars	5 years
Utility Vehicles	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 assets 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 Pasong Tamo property (Land of P22,500 million and Building of P11,454 million). The Pasong Tamo 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 Agreement between PDIC and APT.

G. World Bank Grant

The Japanese Export-Import Bank Facility through the World Bank had 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.