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OUR COVER

On the cover is the facade of the new office of the Philippine Deposit Insurance Corporation. It is symbolic of PDIC's solid strength and reliability, manifesting its corporate culture and marking its increased capacity as a regulator.

The Corporate Vision of the PDIC is to be:

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

The Corporate Mission of the PDIC 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.
- To maintain and foster greater public confidence in the Philippine banking system through:
  —Adequate deposit insurance protection;
  —Prompt and expeditious claims processing and settlement;
  —The efficient and effective management of the receivership/liquidation function; and,
  —The judicious rehabilitation of closed banks.

The Corporate 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.

PDIC Resource Center

PHILIPPINE DEPOSIT INSURANCE CORPORATION

Vitaliano N. Nañagas II
PRESIDENT

June 1993

His Excellency
President Fidel V. Ramos
Malacanang, Manila

Dear Mr. President:

I am honored to present the Annual Report of the Philippine Deposit Insurance Corporation (PDIC) for the year 1992 pursuant to the provisions of Section 15 and Republic Act 3591 as amended.

This document provides a comprehensive overview of the PDIC's accomplishments and significant strides towards the preservation of depositor confidence and the improvement of the banking system as well as its unrelenting efforts to upgrade the quality of service to Philippine economic development.

We envision a more meaningful and productive year ahead for the PDIC by building a formidable institution on the foundations that have been set.

The management and staff are behind me in conveying our profound gratitude to His Excellency for his unremitting support that is pivotal in the attainment of our goals.

Very respectfully yours,

Vitaliano N. Nañagas II
President

PHILIPPINE DEPOSIT INSURANCE CORPORATION

June 1993

Vitaliano N. Nañagas II
PRESIDENT

Honorable Edgardo J. Angara
The President of the Philippine Senate

Honorable Jose C. de Venecia, Jr.
The Speaker of the Philippine House of Representatives

Dear Sirs:

I am honored to present the Annual Report of the Philippine Deposit Insurance Corporation (PDIC) for the year 1992 pursuant to the provisions of Section 15 and Republic Act 3591 as amended.

Very respectfully yours,

Vitaliano N. Nañagas II
President

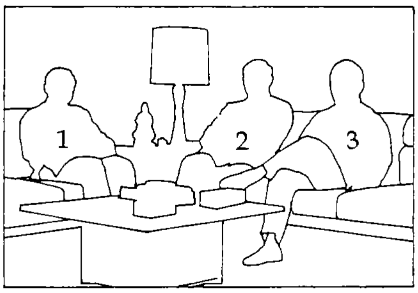
PDIC MANAGEMENT

BOARD OF DIRECTORS

JOSE L. CUISIA, JR. 1
Director
Governor, Central Bank of the Philippines

VITALIANO N. NAÑAGAS II 2
Vice Chairman
President, Philippine Deposit Insurance Corporation

RAMON R. DEL ROSARIO, JR. 3
Chairman,
Secretary, Department of Finance



THE PRESIDENT'S MESSAGE

For the Philippine Deposit Insurance Corporation (PDIC), 1992 shall be remembered as a year of meaningful transformation which saw the institution emerge as a stronger, more viable, and relevant deposit insurer and regulator. The dramatic structural changes within the PDIC significantly expanded its capacity to serve depositors and stakeholders of closed and operating member banks as well as to preserve the payments system's stability.

In retrospect, the PDIC has gone a long way from being a fledgling institution, hidden in the shadows of the Central Bank of the Philippines (CBP) and known by the public for just two things:

1) to depositors, a ₱40,000 maximum insurance coverage of their accounts; and 2) to the banks, the payment of assessment premiums for a service to depositors in closed banks.

The year 1988 was a particularly trying one as the PDIC was just struggling to recover from a wave of bank crises to which it could only react through the massive payments of claims.

Through the years, the banking system eventually regained its health and stability. It passed the gauntlet of a horde of domestic calamities, economic shocks, and a global recession without a major bank closure.

Institutional Strengthening

In late 1988, sensitive to the long-term needs of the financial system and unfazed by successive adversities, the PDIC began laying the foundations of responsiveness and relevance. An Institutional Strengthening Program (ISP) was formulated and implemented with the primary purpose of reducing the burdensome conflict of interest situations in the regulatory sector of the financial system. This was to be accomplished by raising PDIC's capacity in the following areas:

1. monitoring the health of banks;
2. extending technical and financial assistance for preventing closures;
3. developing special programs for individual and systemic bank strengthening;
4. installing claims settlement systems that are more responsive to the needs of depositors and yet have stricter checks and controls;
5. assuming the receivership and liquidation of a growing number of closed banks; and,
6. implementing massive training, computerization, and systems improvement.

In 1992, the ISP gave forth bountiful harvest. These auspicious developments further underscored the promise of a proactive, better equipped PDIC more deeply committed to its development thrusts.

Risk Management

We rationalized the Insurance and Examination Sector (IES) to function like a funnel and sieve through which risk areas are better identified and more timely action can be taken. There are now five departments in the IES, namely: the Insurance Office, the Bank Performance Monitoring Department, the two Field Examination Departments, and the Special Actions and Assistance Group.

The Insurance Office is responsible for monitoring the collection and compliance with premium assessment requirements. Delinquent banks are given sufficient warning and, after a defined period, if the insurance premiums are still not paid, they are duly notified that their insurance status is terminated.

The Bank Performance Monitoring Department (BPMD) handles off-site monitoring activities using available information from member banks and CBP examination reports, monitors the environment in which the banking industry operates, and produces a watchlist of banks that could, in PDIC's opinion, be taking on excessive risks. By middle of 1993, this department should have completed the desired data base for analyzing all the large banks in the Philippine system.

The Field Examination Departments (FEDs) are tasked with the independent examination of all banks and focus on confirming the findings on the risk areas that have been previously identified by the BPMD. Upon completion of the examination, the report of examination will be discussed with the bank management in order to arrive at an agreed action step to address the excessive risk areas, if any.

The Special Action and Assistance Group (SAAG) is the intensive care unit of the IES, and their principal task is to ensure that all efforts at closure prevention are undertaken. These steps include providing assistance to distressed banks, monitoring their condition, and taking appropriate action to assist in their recovery. If all efforts fail, this department is also charged with the responsibility of terminating the insured status of the bank and recommending the closure of the bank to the CBP.

In 1992, the liquidity pools and the Countryside Financial Institutions Enhancement Program (CFI-Enhance) were in full swing. Liquidity pools are now 26 strong and their membership involves 429 rural banks striving for liquidity self-reliance in case of emergency cash crunches.

In the implementation of the CFI-Enhance, over 271 rural banks have applied for the incentives. Five mergers among rural banks and thrift banks are likely to benefit from the program as well. We expect over ₱390 million in additional capital to be infused in the rural banking system as a result of the CFI-Enhance.

Claims Settlements

In the area of claims settlements, systems for the settlement of claims through the modified scheme and transfer deposits were in place and running smoothly. Because of the convenience to depositors as well as the added checks and controls, the transfer deposit mode became the more widely used mode of claims settlement, which paid off 4,683 (92.88%) of the 5,042 claimants paid in the year.

Receivership and Liquidation

Over the years, as the PDIC took over more closed banks, a quantum leap was made in the development of an innovative receivership and liquidation processing technology. What is innovative in the Receivership and Liquidation (R & L) area is that the various tasks are categorized from the closure of a bank to its liquidation, assigned to specialized departments, and definite parameters of actions and deadlines are pre-specified. These departments are:

1. the Takeover Department, whose responsibility is to conduct inventory and accounting of all the assets, liabilities, capital, and the records of closed banks within a specific time. It is worthy to note that the standard time required to take over a single branch rural bank with average sized accounts has been set at two weeks;
2. the Asset Administration and Recovery Department, which manages the bank's resources and transactions, with the aim in view of collecting as much cash as possible by disposing all the assets of the bank and by collecting as much of

the loans through the optimal methods. This department is also charged with the preparation of all the pre-termination work, such as filing of all criminal and collection cases, finishing the appraisal of all the assets, and finalizing the inventory of all the assets of the bank. This department is mandated to finish its work within a period and make sure that incremental revenues from collection are exceeded by the incremental expenses of collection and conversion to cash of the assets;

3. the Termination Department, which prepares and implements the final distribution of the assets of the closed bank to its creditors and stockholders. The process is to be completed even if all assets are not yet converted into cash because the process allows for an auction of the assets that maximizes their value;
4. the Home Office Department, which provides accounting and administrative support services to the other R & L departments and monitors the investments of the closed banks' funds to optimize their earnings. In short, this department is tasked with the function of minimizing the workload of the other operating departments by centralizing or decentralizing the various required activities, and
5. the Operations Control Department, which conducts audit and control programs aimed at improving processes and safeguarding the interests of creditors of failed banks. This is the quality control department for the R & L area.

To test this innovative technology, the PDIC took over from the Central Bank six more closed thrift banks. This brings to a total of 24 failed banks (one commercial bank, eight thrift banks and 15 rural banks) under a modified and more efficient technology developed by the PDIC.

A New Charter

More importantly, 1992 witnessed a turning point in the PDIC's history — the passage of Republic Act 7400 which amends the Corporate Charter, RA 3591 as amended. The PDIC considers this the strongest affirmation of the endeavors at strengthening this institution. This milestone has amplified the PDIC's powers and responsibilities essential to its role in enhancing depositor confidence, infusing strength in the banking system, and minimizing the adverse effects of bank failures on the payments system and the economy.

First, the new law provides a wider safety net for depositor protection. The maximum deposit insurance coverage has been increased to ₱100,000. In order to match the resulting higher risk exposure, the maximum assessment rate for premiums was raised to 1/5 from 1/12 of 1% of total deposit liabilities. Moreover, the Permanent Insurance Fund (PIF) was increased from ₱2 billion to ₱3 billion.

Second, the PDIC has gained greater independence as a regulatory agency. The PDIC can conduct its own examinations, initiate special investigations, and issue cease and desist orders against banks, bank officers, and employees who are engaged in or about to commit unsafe and unsound banking practices.

Third, the law conferred the PDIC with more powers for preventive action. Financial assistance modes have been expanded from lending to purchasing the assets of, and depositing in, distressed banks to assuming their liabilities.

Fourth, the PDIC was entrusted with more responsibilities in its job of minimizing any costly disruptions to the payments system that arise from bank closures. Prescription periods for claims settlements have been shortened from 18 months to six. The appointment of the PDIC as receiver and liquidator of closed banks has become mandatory.

Better Infrastructure, Technology, and Systems

Because of the enhanced role, as well as the accompanying duties and responsibilities, capacity building became imperative. In order to meet the formidable tasks ahead, we have expanded our physical technical capacities as well. On June 22, 1992, we inaugurated our new building at 2228 Pasong Tamo, 1100 Makati, which stands on a 5,000 square meter lot and has a floor area of 6,899 square meters.

The Management Services Office has fine-tuned its Internal Audit Manual and vigorously conducted operations quality reviews to ensure that all major operational aspects are monitored for strict compliance with government regulations and standards of professionalism and ethics. Internal control was modified to expand the scope of reviews to include service quality monitoring. Service Quality Reviews (SQRs) were designed to identify and monitor critical indicators of client relations and services.

As new systems — both computerized and manual — are being installed and improved, 73 new policies and operations manuals were approved by the Board in 1992, for a total number of approved operations guidelines of 94.

Continuous information technology systems upgrading kept PDIC abreast with state-of-the-art developments. Setting the stage for another quantum leap in technology is the Information Systems Strategic Plan, drawn and formulated by the Electronic Data Processing Department and approved by duly mandated government agencies.

Electronic Mail (E-Mail) and Document Tracking (D-Tracks) capability have been built up to reduce the physical volume and time spent in intra-corporate correspondences as well as raise the efficiency and effectivity of corporate communications. The E-Mail and D-Tracks are expected to be fully operational by the second quarter of 1993.

A local area network (LAN) and the UNIX system were reinstalled in the new PDIC building. The staff members were immediately trained so that corporate software and databases can be accessible to all without the need of duplicating them. MEGADOC systems have been used to file sensitive documents in optical disks for maximum security and storage, as well as to reduce costs.

The PDIC now has over 220 personal desktops and laptops to serve our employees. So far, 39 computerized systems are operational and eight are under development for the different departments, which proceed along the LAN and Unix-based open systems. Adequate controls and procedures have likewise been placed to check computer viruses, security breaches, and other hazards.

Human Resource Development

The PDIC has taken special efforts to energize its 355 officers and staff, whose numbers are expected to still grow through a rigorous recruitment and selection process. After recruitment, employees are provided a determinate professional path, with bright career opportunities within the framework of a meritocracy, based on a normal curve and force-ranked performance appraisal system. In 1992, the Comprehensive Training Plan, designed to transform novices into seasoned analysts and executives through various seminars conducted in-house and by reputable institutions here and abroad, delivered 127 seminars and over 74,393 man-hours of training.

To care for our people – our most important resource – medical care, insurance, and GSIS coverage were continued and, where possible, augmented. More formal and informal corporate communications, dialogue, and feedback were held. So that our social commitment would deepen, we encouraged involvement in civic activities, like sponsoring scholarships for out-of-school-youths, assisting the less fortunate within the outreach of PDIC employees, and providing relief to refugees from areas in Central Luzon that have been affected by lahar.

Financial Strength

Conscientious claims collections, effective investment policies, and the amendment to the PDIC Charter which raises the Permanent Insurance Fund to ₱3 billion reinforced the PDIC's financial strength. Resources grew by 17.32% to ₱9,356.99 from ₱7,975.37 million in 1991; and the Deposit Insurance Fund jumped by 50.45% because of the hike in the PIF and the expansion in retained earnings by 62.04% from ₱78.23 million to ₱126.77 million in 1992. In short, PDIC's financial strength has reached record levels and is still growing.

Looking Forward

The PDIC's strategy is to exercise its expanded authority, increase resources, and enhance capabilities of pursuing its mandate in order to preserve the gains and attain the following goals:

To become receiver and liquidator of all closed banks by assuming those that are presently under the CBP and to terminate their liquidation at the soonest time;

To further improve procedures, streamline the process, and explore other modes or claims settlement systems that are cost-effective in terms of controls and convenience to the depositor;

To construct an effective off-site bank monitoring system which will consist of a financial and economic database and a watchlist;

To expand our liabilities in closure prevention through effective field examinations and timely financial assistance and, more importantly, to develop and promote programs aimed at bank strengthening and economic development;

To better serve depositors by providing them assistance and promoting their rights through a Depositors Protection Bureau;

To fortify our financial condition by stepping up premiums collection, stocking up reserves for insurance losses, raising operational efficiency, and pursuing sound investment policies;

To upgrade and fine-tune systems and procedures, complete all necessary operations manuals, and adopt state-of-the-art information technology to ensure the integrity of operations and boost productivity; and,

To preserve the quality of our most important resource – our people, by maintaining strict standards of recruitment and selection and cultivating a meritocracy that breeds teamwork and professionalism.

EXPRESSION OF GRATITUDE

On behalf of that most important resource — the people behind the PDIC — we wish to thank the national government, the previous and past administrations, our member banks, the depositing public, and everyone who has helped materialize what were once dreams and hopes into reality and solid gains for the Corporation.

To our countrymen, we reaffirm our commitment to fulfill our mandate in the spirit of exemplary public service and invite everyone who shares our vision, mission, and values to join us in facing the challenge of a hopeful future.

Vitaliano N. Nañagas II
President

THE ECONOMY

In 1992, there were hopeful signs that the Philippine economy was on the rebound. Gross National Product grew by 1.2%, slightly better than last year's 0.23%. Cost of doing business was trimmed. Interest rates were reduced to their low teens while inflation was cut to single-digit levels.

The peso gained unexpectedly, an effect of the deregulation of foreign exchange. Foreign currencies from remittances of Filipino overseas contract workers and the curb market surfaced when foreign exchange controls were lifted. Hence, foreign currencies swamped the market and drove down the exchange rate to around ₱25:US$1.

The benefit of such a bold policy was that it raised the level of international reserves with the Central Bank of the Philippines (CBP) to over ₱5 billion, more than enough to finance three months of imports. Foreign exchange holdings of banks likewise increased. Furthermore, income from abroad tremendously improved as a direct result of sound management of external debt and financial assets abroad.

Despite these gains, however, the economy still needs further strengthening. Productivity remains low because of power outages, overburdened infrastructure, and inadequate basic services. Investments are kept at bay by the peace and order situation.

The strong peso has placed the export sector at a disadvantage and still tends to widen the trade deficit. While the government is doing its share of liberalizing foreign exchange and import restrictions, exporters will now have to do more marketing and vying for opportunities abroad.

Sharp inequities in the distribution income, wealth, and opportunity remain the basic structural flaws. Because of depressed incomes, purchases are limited to the basic necessities and local manpower is forced to seek better employment opportunities abroad. Hence, consumption-led growth has faltered and brain drain has hampered industrialization.

Presently, the economy is girding for an invest ment-led strategy in order to provide employment, prime consumption spending, and alleviate poverty. However, success hinges on a stable and consistent regulatory environment, accelerated infrastructure development, and peace and order, which are priorities in the executive and legislative agenda.

Hopefully, the implementation of the Build-Operate-and-Transfer Act and the new Local Government Code in the previous administration will accelerate the development of major power and infrastructure projects. The present administration has followed through with a commitment to an economic agenda designed to harness market forces, promote fast-track projects, and boost investor confidence.

The Banking Industry

Economic trends definitely affected the operations of the Philippine banking system. The growth in resources, albeit a formidable rate, was financed by liabilities rather than capital.

Furthermore, revenues from banking operations fell as a result of reduced interest and carrying income. However, the drop in expenses, as a result of cost-cutting measures and the effective use of technology, was much sharper, which allowed banks to still earn hefty spreads.

The largest portion of resources – about 70% – of the Philippine banking industry is concentrated in the commercial banks, which dominate the Philippine financial landscape with a vast branching and office network. Furthermore, commercial banks are at the cutting edge of information technology and financial innovation.

Basically, these banks serve corporate accounts and high net worth individuals. Because commercial banks incur tremendous overheads and the cost of maintaining each account remains high, they have been gradually shying away from the small depositors by raising minimum deposit requirements.

The thrift banks remain on the competitive fringe. They usually cater to middle–income earners and small- and medium-scale enterprises. In their bid to expand their resources, improve operations, and raise profitability, they compete for large accounts.

PHILIPPINE BANKING SYSTEM 1991-1992 (In Million Pesos)			
	1992	1991	Growth
STATEMENT OF CONDITION			
Assets	**₱813,637**	₱681,370	19.41%
Net Loans	**400,605**	332,281	20.56%
Liabilities	**713,676**	589,719	21.02%
Deposits	**503,101**	425,324	18.29%
Capital	**99,961**	91,651	9.0%
RESULTS OF OPERATIONS			
Revenues	**136,935**	167,537	(18.27%)
Interest	**60,825**	76,445	(20.44%)
Operating	**76,110**	91,082	(16.44%)
Expenses	**95,779**	118,256	(19.01%)
Interest	**34,021**	45,033	(24.45%)
Operating	**61,758**	73,223	(15.66%)
Net Income	**41,156**	49,281	(16.49%)
Efficiency	**₱142,97%**	₱141,67%	(0.92%)

Despite the government banks' efforts, the lion's share of credit goes to Metro Manila and urban centers, bringing to light another structural flaw in the Philippine economy. The rural areas, where most of the country's resources are, still suffer from neglect as there are not enough effective financial intermediaries to spur development in these areas.

The banking industry has to be more responsive to the country's development needs. Since more than 70% of national income as well as physical and human resources are in the countryside, more financial services than what is provided at present should be ploughed back to replenish that vital source of wealth. Countryside development will not be possible without the necessary financial infrastructure to harness natural and human resources.

Hence, the PDIC commits itself to supporting both government and private sector efforts at improving the investment climate by helping build a strong and stable banking system, reducing socio-economic inequities through savings generation and credit mobilization, and putting countryside development on top of the agenda.

Given the heavier financial burden, the PDIC has taken direct action against the moral hazard of complacency and imprudence among its members by enforcing market discipline. In 1992, the PDIC released Regulatory Issuances and Bulletins as tools for communicating directives, policies, and actions.

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INSURANCE ACTIVITY

Membership

There have been positive developments in the banking system. In the previous years, the number of member banks fell because of closures. This year, membership fell again, but this time it was primarily due to mergers among thrift and rural banks, some of which were initiated through PDIC's efforts.

The year also saw the reopening of the Philippine Veterans Bank and a new entrant, the Private Development Corporation of the Philippines (PDCP) Bank.

BANK GROUP		
	1992	1991
Commercial	**32**	31
Thrift Banks	**98**	100
Savings & Mortgage Banks	**7**	7
Private Development Banks	**37**	38
Stock Savings & Loan Associations	**54**	55
Rural Banks	**769**	796
Specialized Government Banks	**3**	3
TOTAL	**902**	930

Risk Exposure

Since the maximum deposit insurance was raised to ₱100,000 when the amendments to the PDIC took effect in June 1992, there has been a significant increase in deposits as a result of greater depositor confidence. In the end of 1991, there were ₱16.95 million accounts in the banking systems, 93.12% of which was within the ₱40,000 coverage. On June 31, 1992, there were ₱17.70 million accounts, 95.95% of which are fully covered. Risk exposure likewise grew from ₱108.71 billion to ₱174.88 billion in the same period.

Thus, when the maximum coverage was raised to ₱100,000, PDIC's risk exposure grew by more than 60%. The economy, therefore, enjoys the benefits of more savings being mobilized for the development efforts of the Philippine economy due to higher deposit insurance coverage.

In order to beef up its resources, the PDIC immediately moved to adopt a more realistic assessment premium. Hence, the rates charged to banks were raised to the maximum of 1/5 of 1% of total deposit liabilities. These premium collections were intensified, regulatory issuances for compliance disseminated, and sanctions strictly enforced.

In the spirit of fairness to its conscientiously abiding member banks, the PDIC has strictly implemented its directives and imposed sanctions against members that are repeatedly delinquent in their assessment payments and submission of required reports, even to the extent of terminating their insured status if necessary.

Most importantly, the PDIC through its Insurance and Examination Sector, has developed its examination policies to better identify risk areas and effectively check any dangers to the health of individual banks as well as the banking system.

PDIC RISK EXPOSURE			
	1992	1991	Growth
Number of Accounts Within Maximum Insurance Coverage	**17.11%**	15.78%	8.42
Percentage Fully Covered	**96.56%**	93.10%	3.72
Number of Accounts Over Maximum Insurance Coverage	**0.61**	1.17	(47.86)
Amount Insured by PDIC	**₱178.00**	₱108.73	63.71
Percentage Insured	**36.21%**	25.72%	40.79
Amount Not Insured	**₱313.65**	₱314.02	(0.12)

Number of Accounts in Millions; Amounts in Billion Pesos

This Bank is a Member of the

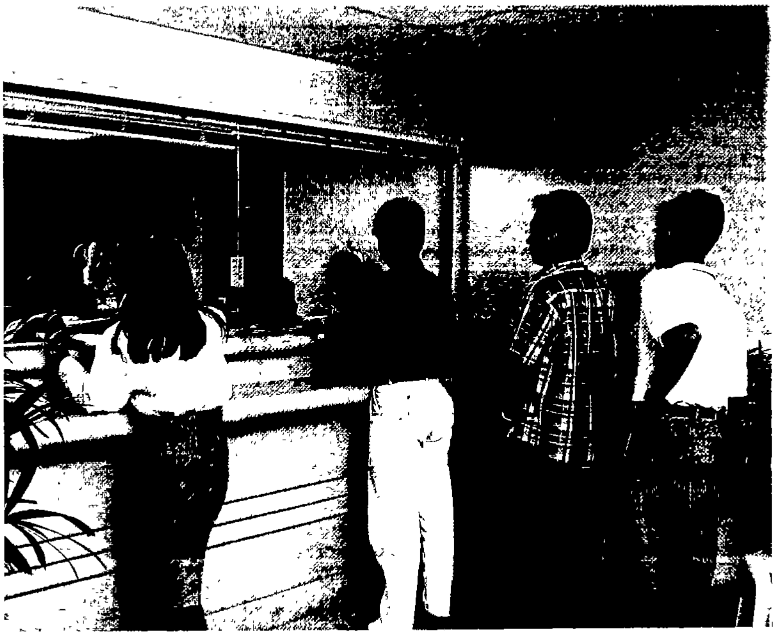
PDIC

Deposits insured up to P100,000

CLAIMS MANAGEMENT

Claims Settlement

Throughout the year, the PDIC has kept at zero level the number of unprocessed claims. This means that all claims received during the period are immediately acted upon. Depositors whose claims either lack documentation or have legal issues that need to be resolved are promptly advised by the claims assistance staff to ensure expeditious action. Moreover, through the claims tracking system, depositors can be immediately informed of the status of their claims.



PAID CLAIMS Cumulative and 1991 Figures (Amounts in Thousand Pesos)				
	Cumulative as of December 31, 1992 **Number of Accounts**	**Amount**	Payments for 1992 Number of Accounts	Amount
Commercial	**₱239,345**	**₱986,670**	₱483	₱17,580
Thrift	**703,788**	**1,841,210**	2,156	13,686
Rural	**171,720**	**275,600**	2,403	14,280
TOTAL	**₱1,111,853**	**₱3,103,480**	₱5,042	₱45,546

CLAIMS ON ACTIVE STATUS				
(Amounts in Million Pesos)				
	December 31, 1992 **Number of Accounts**	**Amount**	December 31, 1991 Number of Accounts	Amount
Awaiting Claimants	**₱11,073**	**₱4.9**	₱12,085	₱4.2
For Processing	**0**	**0**	1,989	44.7
With Legal Issues	**3,571**	**43.0**	1,919	31.9
Insufficient Documentation	**18,050**	**193.0**	58,602	682.0
TOTAL	**₱32,694**	**₱236.9**	₱72,723	₱714.0

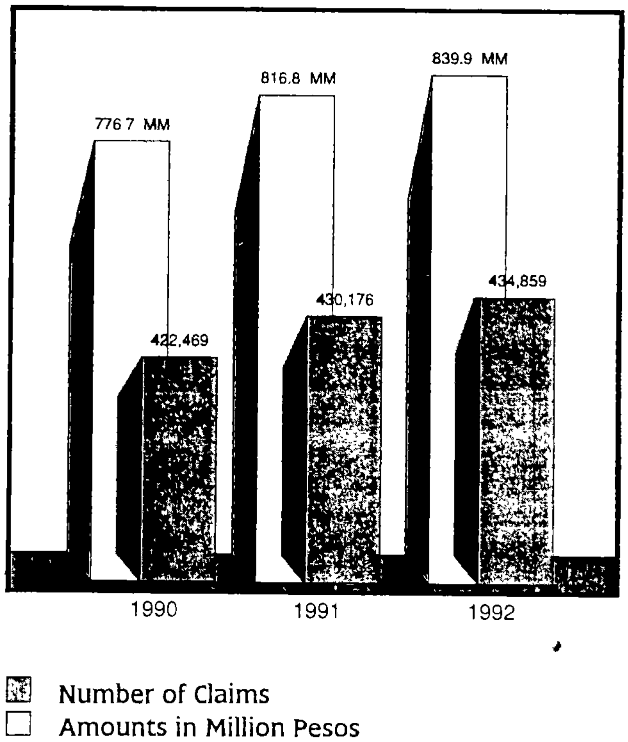
Transfer Deposits

The transfer deposit settlement scheme, which has better procedural checks and financial controls, was also extensively institutionalized during the period. In 1992, ₱4,683 million — or 92.88% of all claims paid amounting to ₱23.09 million — or 50.68% of amount in claims paid — were settled through this settlement mode.

This mode of settlement offers greater convenience. Claimants no longer have to wait for a claims settlement before they can receive payments. They may go to accredited transfer deposit banks for the settlement of their claims through newly opened accounts.

Hence, the system provides for faster service in an accessible bank with an option to open a new account in a stable institution. Furthermore, it encourages depositors to continue saving if they opt to maintain their new accounts in the transfer deposit bank.

Cumulative Claims Paid through the Transfer Deposit Mode



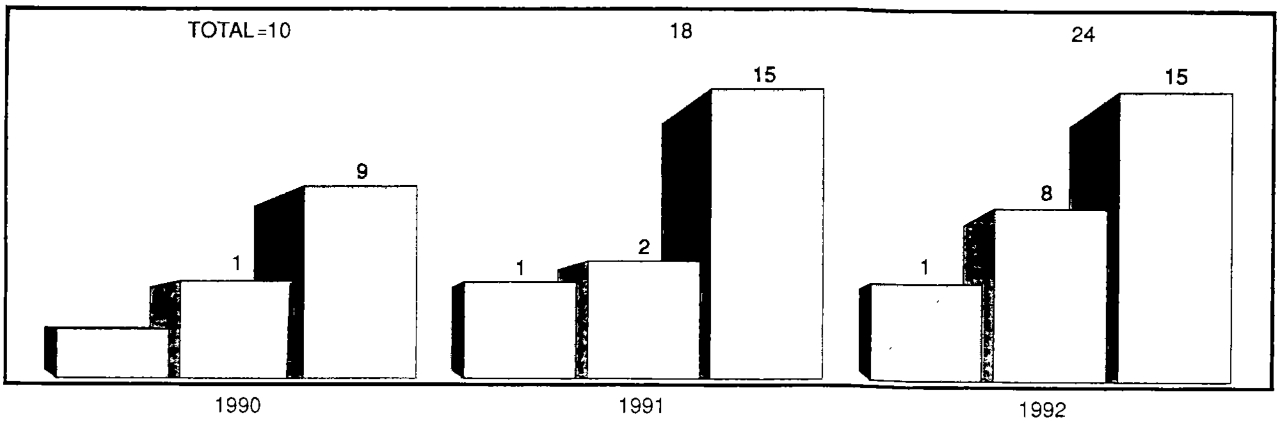
RECEIVERSHIP AND LIQUIDATION

When a bank fails, much anxiety arises among its depositors and creditors over the possible losses they face. Moreover, the bank's assets could deteriorate or dissipate and not all of its obligations might be settled. These losses, which impact on the financial system, must be minimized. Hence, the PDIC's duty of preserving the stability of the payments system extends to the mandatory effective and efficient receivership and liquidation (R & L) of closed banks, as mandated by RA 7400.

Banks under PDIC R & L

Over the years, the PDIC has been increasing the number of banks under its receivership and liquidation. In 1992, it managed to take over six more thrift banks and one rural bank under receivership from the CBP. This brings to a total of 24 failed banks (one commercial bank, eight thrift banks and 15 rural banks) under a modified and more efficient technology developed by the PDIC.

Banks under PDIC Receivership and Liquidation 1990-1992



Innovative Receivership and Liquidation Technology

With the objective of taking effective and expeditious action on closed banks, the PDIC painstakingly did research and development on a production-line system of receivership and liquidation. This recently developed technology compartmentalizes the various stages involved, trains and assigns staff members in specific tasks, and assigns centers of responsibility and accountability among four departments.

The system is a quantum leap from the conventional mode wherein one department manages the entire process on its own for specific banks. The new technology expedited the process and at the same time enhanced control systems. Accountability and responsibility have been defined as departments are assigned with specific aspects of the entire receivership and liquidation process. The four departments of the R & L have been, therefore, structured as follows:

- The Takeover Department (TOD) assumes control over failed banks whether it is a recent closure or a transfer from the Central Bank. Its main responsibility is to conduct inventory accounting of all the assets, liabilities, capital, and records of closed banks. It can recommend a bank for liquidation, if it finds necessary. The TOD is given 145 days to complete its takeover report. Hence, the TOD effectively prevents the dissipation or deterioration of the bank's resources.
- After the TOD has completed its takeover report, the Asset Administration and Recovery Department (AARD) administers the day-to-day operations, the collection of loans, the disposal of fixed assets for conversion into cash, and the receipt and processing of claims of the bank's obligors. On the average, the AARD has six months to submit an incremental cost-benefit report of operations and 270 days to exhaust due diligence in asset conversion. The AARD ensures that the closed bank is effi-

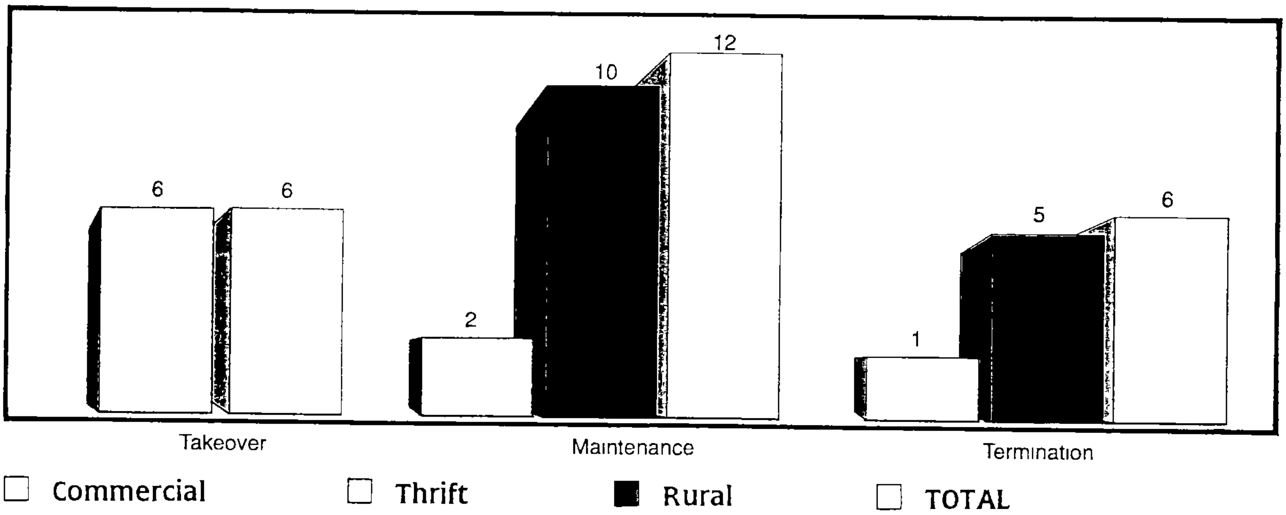
ciently managed and claims are properly accommodated.

- If the incremental costs of the administration and management of the bank exceed the incremental revenues and the AARD has exercised due diligence in asset conversion, the Termination Department (TD) prepares and implements the final settlement with the closed bank's creditors. Within 125 days, the TD must complete its distribution plan, which includes assigning unconverted assets to the bank's claimants with diligence and fairness.
- Throughout the process, the Home Office Department provides and maintains centralized records, submits management reports, and conducts administrative services and functions. The HOD provides support to the line departments in performing their functions efficiently and expeditiously.
- The Operations Control Department (OCD) has developed and implemented its audit and quality review systems over all banks under PDIC. Through the OCD's audit and control programs, the necessary improvements can be identified and installed to safeguard the interests of creditors of failed banks and assure quality control in the entire process of receivership and liquidation.

In the second semester of 1992, the TOD assumed six thrift banks from the CBP. Initial reports from the TOD showed an 80-90% completion of takeover activities.

Furthermore, the TD mapped out a Master Termination Plan and took over five rural banks and the Pacific Banking Corporation for termination.

Status of Banks under PDIC Receivership and Liquidation



Expanding R & L Capacity

The PDIC is poised to assume 205 rural banks and 27 thrift banks from the CBP. Despite limited manpower, the R & L group has taken other measures to accelerate the full R & L over all closed banks in the system.

During the year, a Task Force of external consultants was formed to support the sector in formulating strategies in collection and marketing for accounts amounting to one million pesos and above. The sector also formed an R & L Recovery Board to review the proposals of said Task Force.

Moreover, an "express lane" to expedite the takeover of all closed banks from the CBP using only a minimum number of personnel was conceived. Initially, the PDIC will supervise CBP staff and records and gradually take full charge. Furthermore, the "express lane" will be able to identify banks that can be directly sent to the termination stage.

Sectoral Strengthening

In line with the new mandate of the PDIC in RA 7400, the Insurance and Examination Sector (IES) has been streamlined and reorganized to enable technical specialization, define lines of responsibility, and enhance responsiveness to the demands of depositors and other stakeholders in the banking community. Nevertheless, utmost care is taken to ensure that adequate control is exercised as the IES rapidly expands its operations. Hence, the IES's new organizational design enables faster and more reliable identification and resolution of serious bank problems through a funnel and sieve approach.

Lying at the mouth of the funnel is the Insurance Office. After having been spun off as an independent unit, its systems and practices as well as rules and forms were updated to enhance its assessment capabilities. Monitoring and implementing stricter adherence to deadlines has led to the imposition of penalties and interest charges on delinquent banks and the reduction of delinquencies to negligible levels. By early 1993, the PDIC would have terminated the insured status of severely delinquent banks.

Next in the funnel is the Bank Performance Monitoring Development (BPMD). Created in 1991, the BPMD's operations have grown from the compilation of statistics to the administration of the early-warning and off-site bank monitoring systems. It produces a watchlist that serves as a reconnaissance report for the field staff that advises them on identified risk areas of particular banks. In order to reduce the member banks' burden of reporting requirements, the BPMD has taken the initiative to work with the CBP and institutionalize access to bank reports using the latest information technology.

Deeper in the funnel are the Field Examination Departments (FEDs I and II) that explore and use innovative on-site examination methods to complement the CBP's regular supervision. Empowered by RA 7400 with expanded enforcement authority, the FEDs have dealt quite sternly with problem banks whose capital does not match prudent levels of credit and operations. Banks found operating under unsafe and unsound practices are now routinely being instructed to formalize their commitments to improve their operations under a Memorandum of Understanding (MOU), much like the FDIC. Violating the MOU places them under penalty of being subject to cease and desist orders, not to mention the corresponding fines and sanctions and the possibility of terminating their insured status.

At the end of the funnel is the Special Actions and Assistance Group (SAAG), which ensures that all necessary bank failure prevention measures are promptly and decisively taken. The SAAG has been improving its internal systems of evaluating whether severely distressed banks deserve financial assistance or should be stripped of their insured status.

Special Projects

Apart from the innovations undertaken by PDIC in the exercise of its expanded mandate, it continues to pursue vigorously its development projects in collaboration with other government financial institutions. Among these are the Countryside Financial Institutions Enhancement Program (CFI-Enhance), the Liquidity Pool Programs and information services to the banking sector through regular publications.

The CFI-Enhance, spearheaded by the PDIC in close partnership with the Land Bank of the Philippines and the CBP, has been the centerpiece of PDIC's risk management programs. The promulgation of the CFI-Enhance last August 31, 1991 ushered new hope in the vision to transform the rural banks system into formidable catalysts for countryside development through a set of incentives aimed at a capital buildup strategy for countryside thrift and rural banks.

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

For now, over 295 rural banks have applied for the incentives. Notably, three merger proposals among rural banks were approved in 1992. As a result of the CFI-Enhance, we expect over ₱390 million in additional capital to be infused into the rural banking system.

To further advance comparatively more stable rural banks, the PDIC campaigned for more liquidity pools to be formed. The number of liquidity pools now in operation is 26, involving 428 rural banks, and these are expected to better endure emergency cash crunches. The PDIC has been conducting regular surveys of pool members to monitor their compliance and performance.

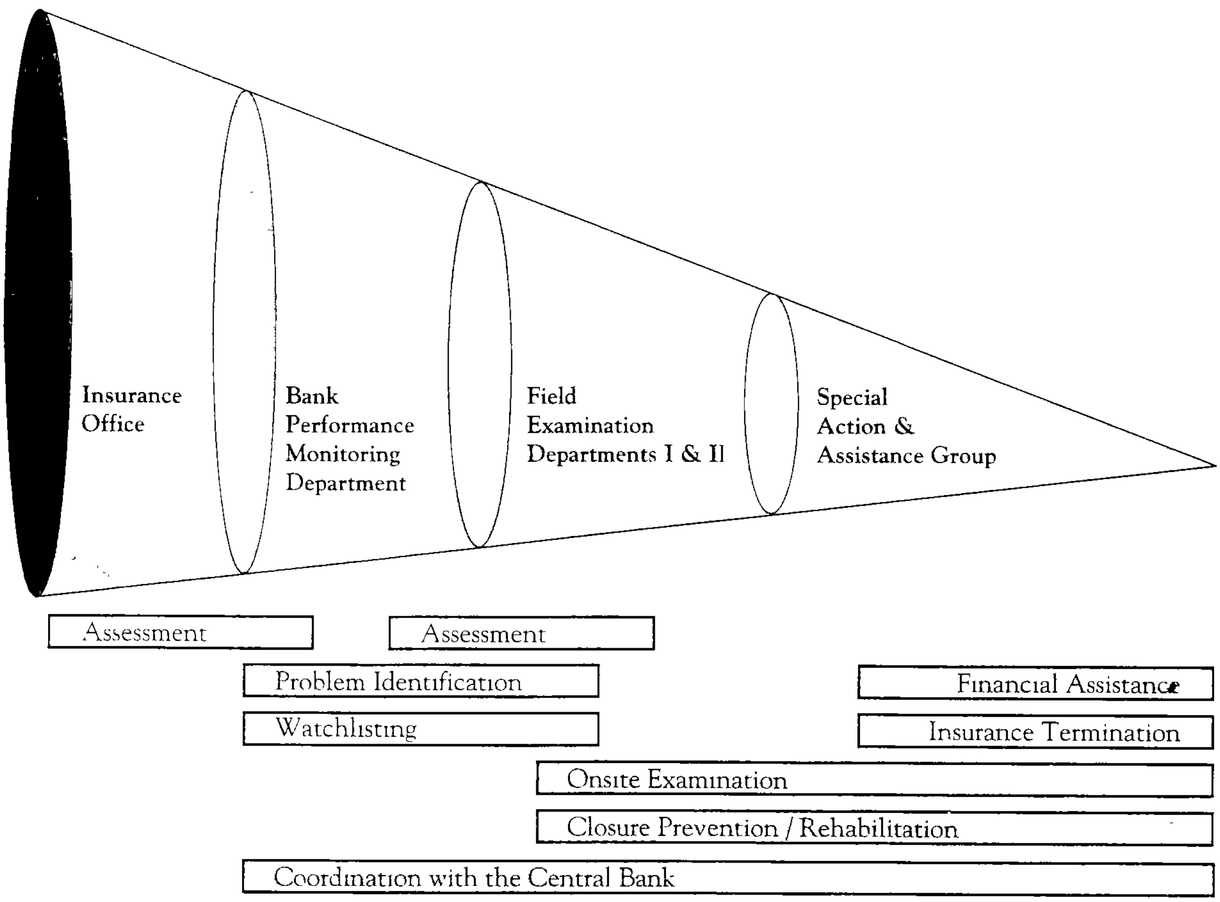
Another notable project was the extension of technical assistance to the National Confederation of Cooperatives (NATCCO) through the formation of a deposit insurance system for cooperatives. The Cooperatives Deposit Guarantee Fund was officially launched on December 18, 1992 and has 25 cooperatives as members.

Information services remain extended to the member banks and other interested parties through our publications and computer technology.

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 sector as well.

The third edition of the **Financial Schemes Available to the Philippine Countryside,** containing 57 sources of low-cost credit, was made and completed during this period. It was launched in October as a PDIC-Kabisig project. The data provide opportunities for the rural banks and other entrepreneurs to improve their earnings and financial stability.

ORGANIZATION OF THE INSURANCE AND EXAMINATION SECTOR



INFRASTRUCTURE AND SYSTEMS IMPROVEMENT

New Building

Marking the PDIC's 29th Anniversary on June 22, 1992 was the inauguration of its new building at 2228 Pasong Tamo, 1100 Makati. The occasion was celebrated in simple ceremonies attended by the PDIC's new chairman, then Secretary Jesus P. Estanislao, and CB Governor Jose L. Cuisia, Jr. and highlighted by the unveiling of the marker by President Nañagas and Governor Cuisia.

The edifice, which symbolizes the PDIC's solid strength, manifests the corporate culture and marks its increased capacity as a regulator, stands on a 5,000 square meter lot and has a floor area of 6,899 square meters.

Internal Control

The PDIC has refined its Internal Audit Manual, which contains programs designed to ensure that all major operational aspects are monitored for strict compliance with government regulations and standards of professionalism and ethics.

The rating systems of the Operations Quality Review (OQR) were tested on its third round, in the identification of specific systems that need streamlining as well as additional controls.

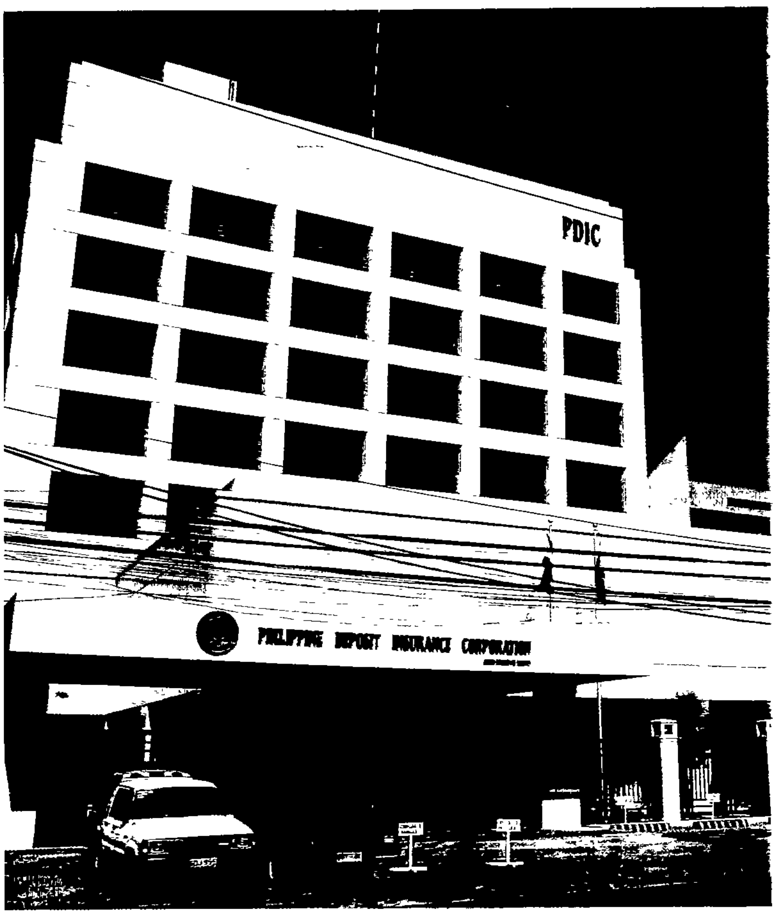
The internal audit program was modified to expand the scope of reviews to include service quality monitoring. Service Quality Reviews (SQRs) were designed to identify and monitor critical indicators of client relations and services. The SQRs are slated for full implementation in 1993.

As new systems are being installed and improved, it is worth noting that in 1992, 73 new policies and operations manuals were approved by the Board, bringing the total approved operations guidelines to 104.

Information Technology

Meanwhile, the information technology systems upgrading of PDIC continues with remarkable results. In contrast to 1988 when there were no computers, PDIC now has 223 personal desktops and laptops to serve our 355 employees. The massive computerization was made possible by a grant courtesy of the World Bank and the Japanese Export-Import Bank.

The cornerstone of the massive computerization is the Information Systems Strategic Plan (ISSP), drawn and formulated by the Electronic Data Processing (EDP) Department and approved by duly mandated government agencies.



During the year, the implementation of the ISSP began with the computerization of a number of departmental databases, accounting processes, and routine tasks. Major guidelines for maintenance, security, and systems development have likewise been approved and are operational.

A Local Area Network (LAN) and the UNIX system were reinstalled in the new PDIC building and staff members were trained so that corporate communications shall now start to be disseminated electronically. MEGADOC systems have also been used to file sensitive documents in optical disks for maximum security and storage.

So far, 39 computerized systems are operational and eight are under development for the different departments, which proceed along the LAN and UNIX-based open systems. Adequate controls and procedures have likewise been placed to check computer viruses, security breaches, and other hazards.

Among the systems being developed are the Electronic Mail (E-Mail) and the Document Tracking System (D-Tracks), which will both be fully operational in the second quarter of 1993. The E-Mail will reduce physical volume and correspondence time of corporate communications and amplify its efficiency and effectiveness. The D-Tracks will eliminate not only the ever present logbooks that evidence the receipt and dispatch of documents within the Corporation but also the tedious task of the employees who have to physically carry the documents from one location to another.

LEGAL SERVICES

In 1992, the legal advocacy efforts of the PDIC succeeded in helping the passage of Senate Bill 1539, which then President Corazon C. Aquino signed into law in April 1992 as Republic Act 7400, which further amends Republic Act 3591.

Regulation

With the PDIC's growing involvement in the banking industry as envisioned in RA 7400, the PDIC has released during this period its first Regulatory Issuance and Bulletins for the banks to inform the public that:

1. deposit insurance coverage has been effectively increased to ₱100,000 through standees, decals, and advertisements; and,
2. assessment rates shall be raised from 1/12 of 1% to 1/5 of 1% effective 1993. This increased assessment is a significant step to beefing up the Permanent Insurance Fund of the PDIC to support its increased exposure.

These issuances underscore the commitment of the government to undertake definite steps toward continuously protecting the interest of the small depositors.

Legal Advisory

The Legal Services Department prepared 143 legal opinions in 1992: 92 regarded claims settlements in 37 closed banks; 27 involved receivership and liquidation; 13 were on examination and insurance related matters; and 11 were related to corporate services.

Litigation

In 1992, the Litigation Department handled and monitored 467 cases classified as follows: 34 on claims on insured deposits; 410 on collection, annulment of mortgages, and other cases related to the receivership/liquidation of closed banks; 22 on petitions for assistance in liquidation; and one escheatment proceeding.

Special Investigation

The Special Investigations Office handled 143 cases. Of these, 90 have been completed and are composed of: 28 on property whereabouts and other checks; 23 background investigations on service and maintenance contractors; 14 applicant and employee checks; and 25 investigations relating to fraud

HUMAN RESOURCE DEVELOPMENT

The PDIC has taken special efforts to strengthen its present work force through a rigorous recruitment and selection process. PDIC maintains high standards of screening, testing, and background checks on its applicants. Once hired, the PDIC provides employees with a determinate professional path with bright career opportunities within the framework of a meritocracy.

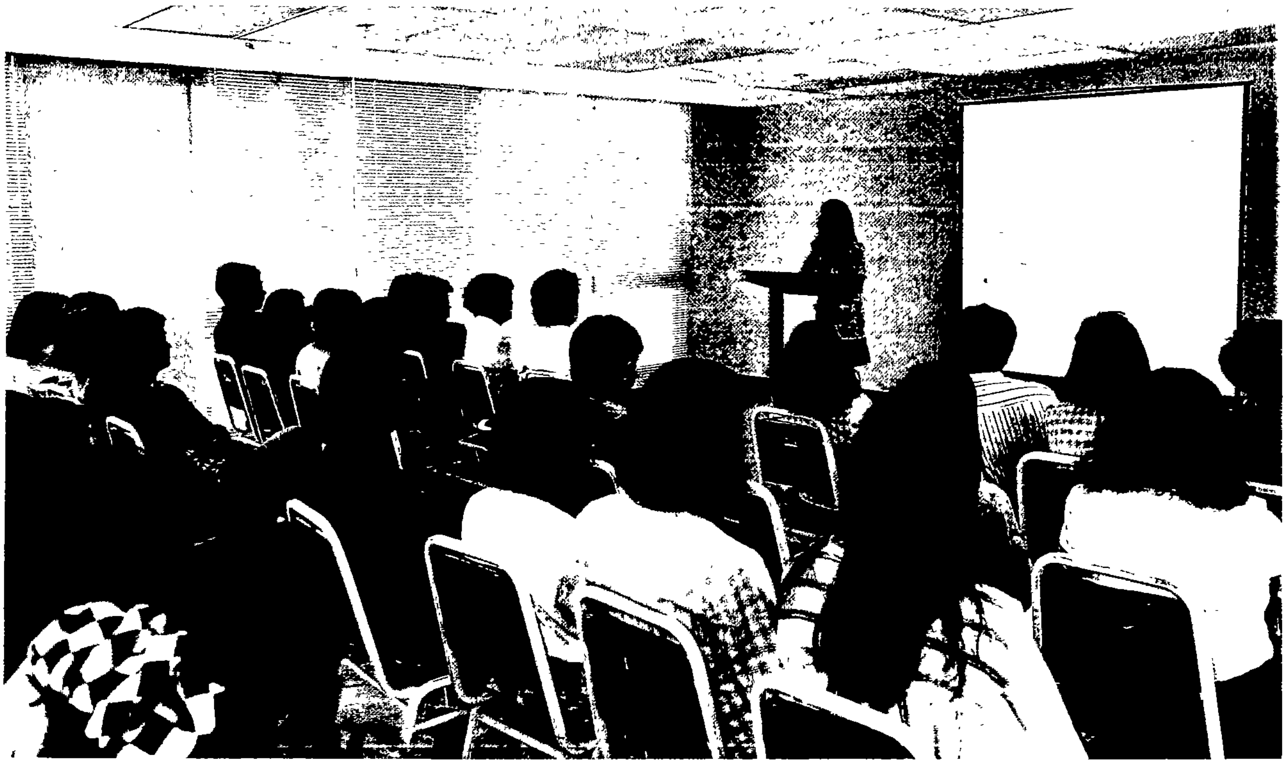
The performance appraisals of its employees for this year have been prepared and processed. It was undertaken on a normal curve-forced rating system — as a matter of internal policy and compliance with the Civil Service Commission. The normal curve rating system serves as the basis for productivity incentive awards and career advancement based on output and contribution to total corporate performance. This system has served to establish standards of performance, conduct, and consistency.

The Comprehensive Training Plan, programmed to transform novices into seasoned analysts and executives, is ongoing. Assiduous efforts were spent on training and development in various seminars conducted in-house and by reputable institutions here and abroad.

In 1992, the PDIC's 355 officers and staff benefitted from over 74,393 training hours in 127 seminars and workshops. Hence, a PDIC employee availed of at least one training opportunity. Topics ranged from trades and crafts to specialized technical skills and executive development.

Medical care insurance and GSIS coverage were continued. So were formal (i.e. grievance machinery) and informal (i.e. breakfast and lunch meetings with the President) corporate communications, dialogue, and feedback.

Management and staff were engaged in civic activities, like sponsoring scholarships for out-of-school youths, assisting the less fortunate within the outreach of PDIC employees, and providing relief to areas stricken by the Mount Pinatubo eruption. These activities certainly deepened the PDIC employees' social commitment as well as concern for the less fortunate Filipinos.



STRATEGIC DIRECTIONS

Essentially, PDIC's strategy is to fortify the structure of the organization and begin utilizing its expanded capacity to pursue its mandate of monitoring and strengthening the banking systems and isolating and minimizing the adverse effects of bank closures on the payments system and the economy.

On the one hand, the PDIC will strictly enforce its compliance with regulations and assessment premiums. Termination of insured status will strictly be applied to cleanse the banking system of members that violate PDIC regulations and are inexcusably delinquent in their payments of premiums.

On the other hand, the PDIC shall expand its abilities in closure prevention and, more importantly, bank strengthening. The Insurance and Examination Sector will step up its efforts in monitoring institutional and systemic risks in the banking industry through strict off-site/on-site examinations. Effective and novel approaches in financial and technical assistance will be looked into.

In claims settlements, the PDIC shall continue to improve procedures, streamline the process, and explore other modes of claims settlement systems that are cost-effective in terms of controls and convenience to the depositor. Private banks will be commissioned for transfer deposit payments. The postal money order system will be vigorously explored as a means of payment.

The Receivership and Liquidation Sector will assume all closed banks under the PDIC's newly developed technology and streamlined process. We will assume closed banks presently under the CBP. Moreover, the liquidation of these closed banks will be terminated at the earliest possible time.

The Legal Services Sector will actively investigate cases of unsafe and unsound banking practices in both operating and closed banks and take necessary actions, such as issue cease and desist orders against erring bank officers and personnel. The sector will continue to provide legal advice and counsel for the Corporation as well.

To better serve depositors, the PDIC shall provide them assistance in promoting as well as upholding their rights through a Depositor Protection Bureau.

The PDIC envisions closer relationships with other government offices, financial institutions, and international agencies. The Corporation will endeavor to participate in programs and support policies that will spur the banking sector to be more responsive to economic development.

The PDIC will maintain the quality of service and level of competence among its officers and staff by first upholding strict standards of recruitment and selection and keeping the quality and pace of training and development. An atmosphere of professionalism and transparency through open dialogue, constructive feedback, and team building shall be fostered.

Discussions and feedback from experience will serve to upgrade and fine-tune systems and procedures. The PDIC will further improve internal audit programs and apply state-of-the-art information technology in order to promote professionalism and bolster productivity.

Finally, to prepare for greater financial risks in a rapidly expanding banking sector, we will be stricter in our premiums collection, continue to provide for adequate reserves for insurance losses, and further raise operational efficiency.

EXECUTIVE OFFICERS

VITALIANO N. NAÑAGAS II
President

NIEVELINA V. ROSETE
Senior Vice President
Corporate Services

CAESAR OCTAVIUS V. PARLADE
Senior Vice President
Insurance and Examination

OFFICE OF THE PRESIDENT - SUPPORT SERVICES

Standing left to right.
Joffre V. Balce, Rodante G. Pineda, Vitaliano N. Nañagas II, Juan V. Lanting, Armando L. Quilala, Jose Alexander G. Festin
Sitting left to right:
Zenaida A. Villaroman, Filomena E. Jongco, Catherine F Bamba, Rosola A. Vivas, Ester B. Binalla

OFFICE OF THE PRESIDENT

Ester B. Binalla
Corporate Executive Officer II

Juan V. Lanting
Security Officer V

OFFICE OF THE VICE PRESIDENT, SPECIAL SERVICES

Catherine F. Bamba
Vice President

PLANNING DEPARTMENT/PUBLIC RELATIONS AND LIAISON OFFICE (PRLO)

Joffre V. Balce
Manager and Concurrent Officer-in-Charge of PRLO

ELECTRONIC DATA PROCESSING DEPARTMENT

Rosola A. Vivas
Manager

Rodante G. Pineda
Assistant Manager

Jose Alexander G. Festin
Corporate Executive Officer I

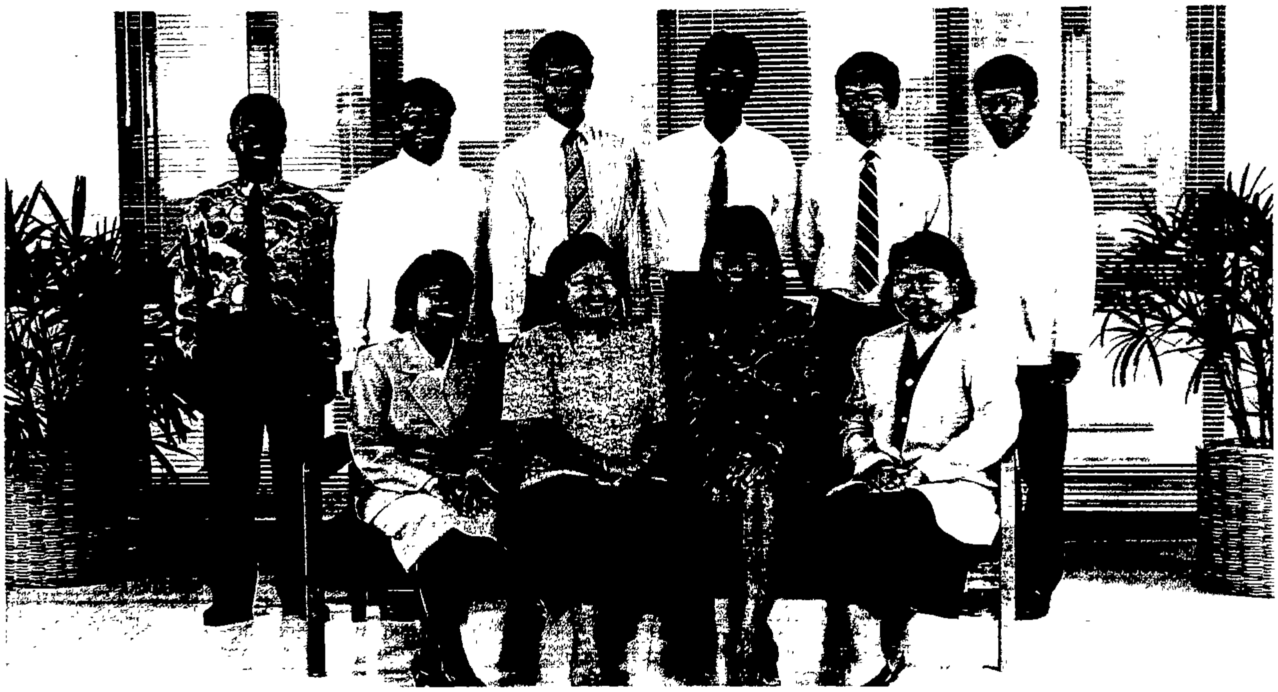
MANAGEMENT SERVICES OFFICE

Armando L. Quilala
Manager

Zenaida A. Villaroman
Assistant Manager

Filomena E. Jongco
Corporate Executive Officer I

OFFICE OF THE PRESIDENT - LEGAL COUNSEL



Standing left to right:
Luisito Z. Mendoza, George A Elias, Jesus G. Serrano, Jose B Salgado, Jr., Wilfredo B. Serrano, Avelino T. Iglesias, Jr.
Sitting left to right.
Vivian R. Monzon, Rosalinda U Casiguran, Antonette I. Brillantes, Mary Rosalind A. Alarca

OFFICE OF THE CHIEF LEGAL COUNSEL

Rosalinda U. Casiguran
Vice President and Chief Legal Counsel

LEGAL SERVICES DEPARTMENT

Avelino T. Iglesias, Jr.
Assistant Manager

George A. Elias
Attorney IV

Luisito Z. Mendoza
Attorney III

Mary Rosalind A. Alarca
Attorney III

LITIGATION DEPARTMENT

Pablo Y. Romero, Jr. and Jesus G. Serrano
Assistant Managers

Jose B. Salgado, Jr.
Attorney III

Antonette I. Brillantes
Attorney III

SPECIAL INVESTIGATIONS DEPARTMENT

Rene B. Bachoco
Corporate Executive Officer I

CORPORATE SERVICES SECTOR

Standing left to right:
Herminia T. Lloren, Flordeliz C. Porsovigan, Imelda M. Rienda, Edgar C. Ante, Glorificacion M. Nocos, Antonio S. Paray, Eleanor B. Lopez, Zenaida P. Bautista, Esther Lily J. Acena
Sitting left to right:
Araceli H. Tabac, Ma. Elena E. Bienvenida, Nievelena V. Rosete, Josefina G. Coligado

OFFICE OF THE SENIOR VICE PRESIDENT

Flordeliz C. Porsovigan
Manager

ACCOUNTING DEPARTMENT

Glorificacion M. Nocos
Corporate Executive Officer II & Officer-in-Charge

Imelda M. Rienda
Assistant Manager

HUMAN RESOURCE MANAGEMENT CENTER

Eleanor B. Lopez
Manager

Esther Lily Jeanne Q. Acena
Division Chief III

INTERNAL SERVICES MANAGEMENT CENTER

Edgar C. Ante
Corporate Executive Officer I & Officer-in-Charge

Antonio S. Paray
Corporate Executive Officer I

Herminia T. Lloren
Division Chief III

TREASURY DEPARTMENT

Josefina G. Coligado
Assistant Manager

Zenaida P. Bautista and Ruth A. Refran
Division Chiefs III

INSURANCE AND EXAMINATION SECTOR

Standing 2nd row left to right
Caesar Octavius V Parlade, Serafin A Fule, Jr, Lolita D Reyllo, Geronimo V. Ambe
Standing 1st row left to right:
Rescina S. Bhagwani, Lilian I. Serna, Jocelyn J. Nepomuceno, Analiza R Santos, Ma. Theresa G Accion
Sitting left to right
Josefina J Velilla, Ma Carmela L. Villegas, Beverly B. Sanchez, Ma. Goretti I Jimenez, Sandra P Arce

OFFICE OF THE SENIOR VICE PRESIDENT

Caesar Octavius V. Parlade
Senior Vice President

Benjamin M. Sales
Corporate Executive Officer I

INSURANCE OFFICE

Jocelyn J. Nepomuceno
Assistant Manager

BANK PERFORMANCE MONITORING DEPARTMENT

Ma. Goretti I. Jimenez
Manager

Jaime H. Gillego and Serafin A. Fule, Jr.
Assistant Managers

FIELD EXAMINATION DEPARTMENT I

Geronimo V. Ambe
Assistant Manager

Ma. Theresa G. Accion
Corporate Executive Officer I

FIELD EXAMINATION DEPARTMENT II

Rescina S. Bhagwani
Manager

Lolita D. Reyllo, Analiza R. Santos, and Josefina J. Velilla
Corporate Executive Officers I

SPECIAL ACTIONS AND ASSISTANCE GROUP

Beverly B. Sanchez
Vice President

Josefina A. Reyes
Manager

Sandra P. Arce and Lilian I. Serna
Assistant Managers

Ma. Carmela L. Villegas
Corporate Executive Officer I

CLAIMS, RECEIVERSHIP AND LIQUIDATION SECTOR

Standing 2nd row left to right:
Vitaliano N Nañagas II, Renato N. Pulido, Teodoro E Gallardo, Jose Teodoro D Hirang
Standing 1st row left to right:
Aurora C. Baldoz, Josephine C. Gonzales, Edita D Villar, Elenita B. Vidal, Merlie M. Cañaveral, Victoria M. Cancino, Ma. Regina R. Fajardo, Arturo B. Caronongan, Jr., Benefico M Magday, Antonio V. Marquez
Sitting left to right:
Noemi R. Javier, Elizabeth E. Oller, Rosalinda U. Casiguran, Lolita M Hernandez, Teresita D. Gonzalez

CLAIMS SETTLEMENT GROUP

CRL - IA

Teodoro E. Gallardo
Manager

Merlie M. Cañaveral and
Victoria M. Cancino
Corporate Executive Officers I

CRL - IB

Josephine C. Gonzales
Manager

Elizabeth E. Oller
Corporate Executive Officer I

Arturo B. Caronongan, Jr.
Jose Teodoro D. Hirang
Corporate Executive Officers I

ASSET ADMINISTRATION AND RECOVERY DEPARTMENT

Aurora C. Baldoz
Manager

Levy C. Cruz
Antonio V. Marquez
Angel B. Obrero, and
Renato N. Pulido
Corporate Executive Officers I

TERMINATION DEPARTMENT

Edita D. Villar
Manager

Rodolfo R. Anaya and
Benefico M. Magday
Corporate Executive Officers I

HOME OFFICE DEPARTMENT

Ma. Regina R. Fajardo
Manager

Noemi R. Javier
Assistant Manager

Lolita M. Hernandez
Corporate Executive Officer I

OPERATIONS CONTROL DEPARTMENT

Elenita B. Vidal
Manager

Anita R. Gongon
Corporate Executive Officer I

RECEIVERSHIP AND LIQUIDATION GROUP

TAKEOVER DEPARTMENT

Teresita D. Gonzales
Manager

FINANCIAL HIGHLIGHTS

More efficient claims collections, effective investment policies, and the amendment to the PDIC Charter which raises the Permanent Insurance Fund (PIF) to ₱3 billion buttressed the PDIC's financial resources in 1992.

Premiums collection rose by 10.28% to ₱348.60 million. Total revenues grew to over ₱1,111.61 million, 3.54% over the 1991 level.

Current assets, consisting of cash, marketable securities, and other liquid assets, grew by 28.43%, from ₱3,772.10 million in 1991 to ₱4,844.64 million; thus, raising the PDIC's liquidity to substantial levels. The PDIC also stocked up on its allowance for insurance losses to ₱2,025.21 million, 43.41% over the previous year's ₱1,412.15 million.

More liquidity and greater reserves for losses mean a quicker ability to respond to the needs of our clientele and a larger buffer for risk, respectively.

The PDIC chalked up its resources by 17.32% from ₱7,957.37 million in 1991 to ₱9,356.99. Total liabilities grew by only ₱5.65 million — from ₱5,897.14 million in the previous year to ₱6,230.22 million.

The Deposit Insurance Fund jumped by 50.45% mainly because the authorized PIF was amended by RA 7400 from ₱2 billion to ₱3 billion and retained earnings expanded by 62.04% from ₱78.23 million to ₱126.77 million in 1992.

FINANCIAL PERFORMANCE HIGHLIGHTS

(In Million Pesos)

	1988	1989	1990	1991	**1992**
Premiums Collection	₱136.05	₱197.23	₱254.38	₱316.11	**₱348.60**
Gross Revenues	238.08	476.90	823.23	1,073.62	**1,111.61**
Deposit Insurance Fund	2,013.03	2,031.97	2,051.34	2,078.23	**3,126.77**
Earnings	6.19	10.19	12.31	16.48	**22.07**
Reserves	₱500.45	₱575.74	₱813.36	₱1,412.75	**₱2,025.21**

CONSOLIDATED STATEMENT OF CONDITION

(Amount in Million Pesos)

	1992	1991	% Growth
TOTAL ASSETS	**₱9,356,992**	₱7,975,369	17.32
Current Assets	**4,844,638**	3,772,106	28.43
Assets Acquired in Bank Assistance and Deposit Subrogated Transactions	**4,326,127**	4,122,388	4.94
Property and Equipment Net of Accumulated Depreciation	**159,166**	68,607	132.00
Other Assets	**27,062**	12,268	120.58
TOTAL LIABILITIES			
Current Liabilities	**535,086**	597,921	(10.51)
Long-Term Liabilities	**3,653,624**	3,548,160	2.97
Allowance for Insurance Losses	**2,025,208**	1,412,149	43.41
Other Liabilities and Deferred Credits	**16,304**	338,906	(95.19)
DEPOSIT INSURANCE FUND	**3,126,769**	2,078,233	50.45
Permanent Insurance Fund	**3,000,000**	2,000,000	50.00
Retained Earnings	**126,769**	78,233	62.04
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND	**₱9,356,992**	₱7,975,369	17.32

INCOME STATEMENT

(In Million Pesos)

	1992	1991	% Growth
TOTAL INCOME	**₱1,111,611**	₱1,073,616	3.54
TOTAL EXPENSES	**417,254**	393,730	5.97
INCOME BEFORE PROVISION FOR INSURANCE LOSSES	**694,357**	679,886	2.13
Less: Provision for Insurance Losses	**672,292**	663,406	1.34
NET INCOME	**₱22,065**	₱16,480	33.89

CONSOLIDATED STATEMENT OF CONDITION

(Amount in Thousand Pesos)

	1992	1991	% Growth
CURRENT ASSETS	**₱4,844,638**	₱3,772,106	28.43
Cash, Including Short-Term Deposits	**233,800**	2,072	11,184.31
Settlement for Claims Accounts	**102,397**	99,198	3.22
Due from CB (PDIC Account)	**90**	10	799.07
Philippine Government Obligations (Note A)	**3,266,763**	3,611,591	(9.55)
Permanent Insurance Fund Receivables	**1,026,513**	26,513	3,771.81
Due from Officers and Employees	**324**	25	1,177.47
Accounts and Other Receivables	**199,009**	30,813	545.86
Inventory of Supplies and Materials	**517**	432	19.91
Prepaid Expenses	**15,224**	1,452	948.43
ASSETS ACQUIRED IN BANK ASSISTANCE AND DEPOSIT SUBROGATED TRANSACTIONS	**4,326,127**	4,122,388	4.94
PROPERTY AND EQUIPMENT Net of Accumulated Depreciation	**159,166**	68,607	132.00
OTHER ASSETS	**27,062**	12,268	120.58
TOTAL ASSETS	**9,356,992**	7,975,369	17.32
CURRENT LIABILITIES			
Accounts Payable - Various	**535,086**	597,921	(10.51)
Accounts Payable - PNB	**18,145**	3,683	392.69
Due to Officers and Employees	**361**	733	(50.67)
Estimated Subrogated Claims Filed Payable	**156,772**	170,987	(8.31)
Estimated Subrogated Claims Payable	**359,402**	422,206	(14.88)
LONG-TERM LIABILITIES	**3,653,624**	3,548,160	2.97
Notes Payable	**2,750,000**	2,750,000	0.00
Accrued Interest Payable - CB	**856,599**	798,160	7.32
Subrogated Claims Paid Assigned	**47,025**		
OTHER LIABILITIES AND DEFERRED CREDITS	**2,041,512**	1,751,054	16.59
Accounts Payable - Perpetual Savings Bank	**1,000**	1,000	0.00
Deferred Assessment Income	**35**	31	14.00
Unearned Discount		327,275	(100.00)
Provision for Retirement	**15,269**	10,600	44.04
Allowance for Insurance Losses (Note B)	**2,025,208**	1,412,149	43.41
TOTAL LIABILITIES	**6,230,223**	5,897,135	5.65
DEPOSIT INSURANCE FUND	**3,126,769**	2,078,233	50.45
Permanent Insurance Fund	**3,000,000**	2,000,000	50.00
Retained Earnings	**126,769**	78,233	62.04
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND	**₱9,356,992**	₱7,975,369	17.32

INCOME AND RETAINED EARNINGS			
(In Thousand Pesos)			
	1992	1991	% Growth
INCOME	**₱1,111,611**	₱1,073,616	3.54
Assessment Income	**348,600**	316,111	10.28
Interest Earned	**159,275**	159,011	0.17
Earned Discounts	**603,441**	597,480	1.00
Miscellaneous Income	**295**	1,014	(70.91)
EXPENSES	**417,254**	393,730	5.97
Personal Services	**49,124**	41,528	18.29
Management Expenses	**13,822**	6,643	108.07
Property Expenses	**10,684**	3,934	176.17
Communications	**856**	761	12.50
Interest Expenses	**332,839**	330,472	0.72
Travel	**1,372**	1,436	(4.49)
Taxes	**363**	191	89.70
Others	**8,014**	8,765	(8.57)
INCOME BEFORE PROVISION FOR INSURANCE LOSSES	**694,357**	679,886	2.13
Provision for Insurance Losses	**672,292**	663,406	1.34
NET INCOME	**22,065**	16,480	33.89
RETAINED EARNINGS, January	**78,233**	51,342	52.38
Add: Prior Year's Adjustment	**26,471**	10,412	154.24
RETAINED EARNINGS, December	**₱126,769**	₱78,233	62.04

CHANGES IN COMPONENTS OF WORKING CAPITAL			
(In Thousand Pesos)			
	1992	1991	% Growth
INCREASE (DECREASE) IN CURRENT ASSETS	**₱707,665**	₱(438,385)	(261.43)
Cash	**231,728**	169	137, 016.92
Settlement of Claims Accounts	**3,199**	(23.265)	(13.75)
Permanent Insurance Fund	**1,000,000**	23,987	4,068.92
Accounts & Other Receivables	**(168,196)**	(47,331)	(255.36)
Philippine Government Obligations	**(344,828)**	(390,284)	(11,65)
Other Current Assets	**(14,237)**	(1,661)	757.14
INCREASE (DECREASE) IN CURRENT LIABILITIES	**197,410**	418,348	(52.81)
Accounts Payable and Accrued Expenses	**119,927**	344,427	(65 18)
Accounts Payable – PNB	**93**	110	(15.21)
Other Payable - PNB	**77,390**	73,811	4.85
INCREASE (DECREASE) IN WORKING CAPITAL	**₱510,255**	₱(20,037)	2,646.56

KORPORASYON NG PILIPINAS SA SEGURO NG LAGAK

(PHILIPPINE DEPOSIT INSURANCE CORPORATION)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Valuation of Investment

Securities/investments in Philippine Government Obligations were recorded at cost effective April 1, 1992. Investments for the period of January 1 to March 31, 1992 were booked at maturity value. The difference between the cost and face value is the prepaid tax, which is equivalent to 20% of the discount of the investment. The prepaid tax is amortized monthly to record the expense and presented in the Income Statement as a deduction from the total earned discount. The earned discount is amortized on a daily basis and recorded monthly over the life of the Treasury Bills.

B. Allowance for Insurance Losses

To meet the risk 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 assessments earned after deducting operating and financial 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 and the Philippine Veterans Bank.

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.

For this purpose, the accounts "Allowance for Losses on Subrogated Claims Paid" and "Estimated 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 from 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 with book value of ₱26,206,017.61 and building with book value of ₱99,611,480.69). The Pasong Tamo property was purchased on July 25, 1990 from the Assets Privatization Trust (APT) 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

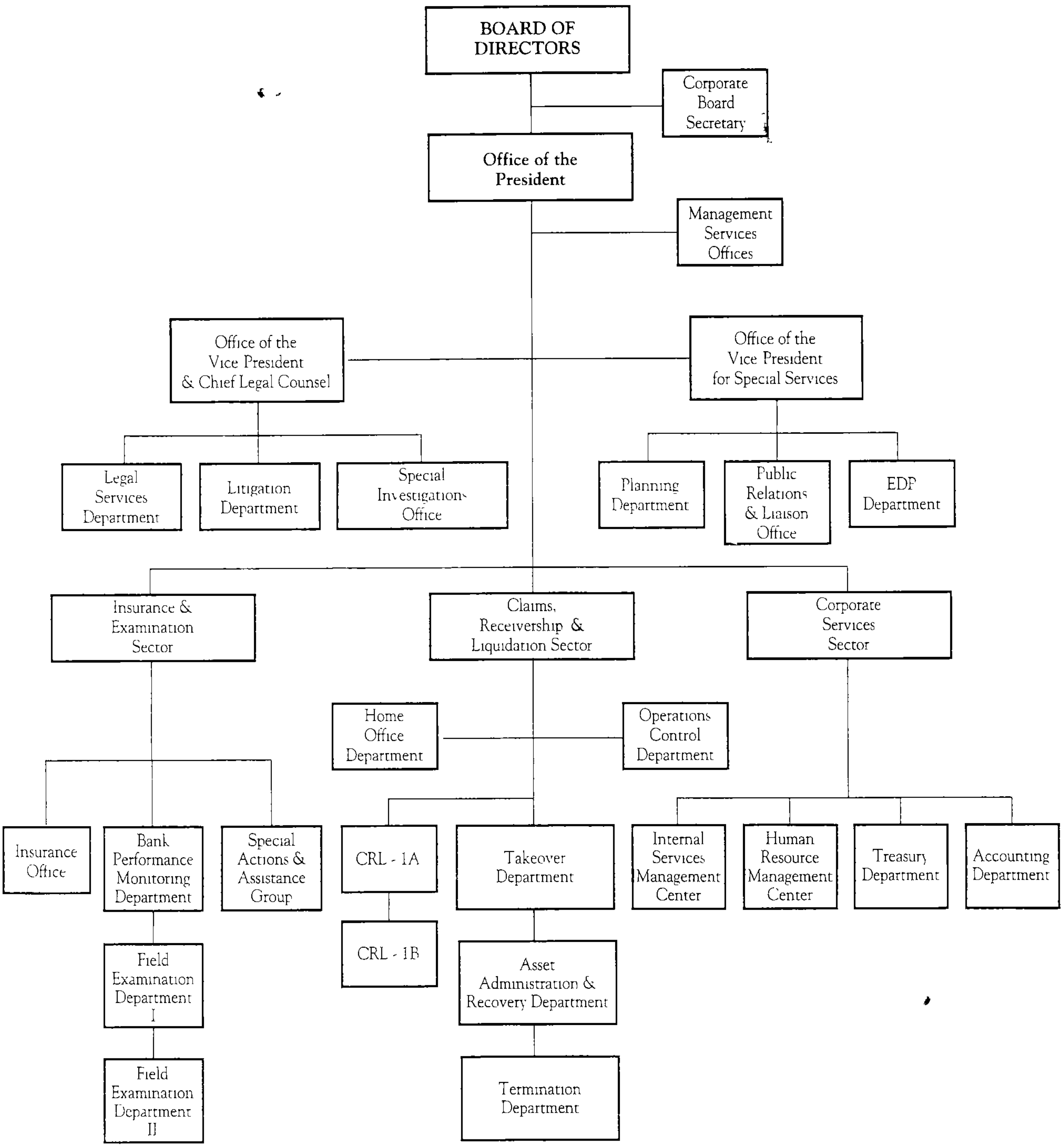
The Japanese Export-Import Bank Facility through the World Bank has approved a budget allocation for PDIC as one of the beneficiary government agencies in the amount of One Million Eight Hundred Six Thousand Five Hundred US Dollars with $100,000.00, to be utilized exclusively for human resource development and systems and technology upgrading.

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

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

Figures are unaudited.

ORGANIZATION OF THE PHILIPPINE DEPOSIT INSURANCE CORPORATION



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FDIC Resource Center