



Philippine Deposit Insurance Corporation

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## VISION, MISSION & BELIEFS

### V I S I O N

To be financially, organizationally and functionally independent;

To be operationally responsive to depositors, member banks and Philippine economic development; and,

To be professionally managed while maintaining its concern for the welfare of its officers and staff.

### M I S S I O N

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 and liquidation functions;
- the judicious rehabilitation of closed banks; and,
- the dissemination of information on these missions.

### B E L I E F S

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 the most important resource.

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## PHILIPPINE DEPOSIT INSURANCE CORPORATION

September 1995

HIS EXCELLENCY  
PRESIDENT FIDEL V. RAMOS  
Malacañang, Manila

Dear Mr. President:

I have the honor to present the Annual Report of the Philippine Deposit Insurance Corporation (PDIC) for the year 1994. This report presents PDIC's accomplishments in preserving depositor confidence and promoting stability in the banking system through its insurance and regulatory functions.

We envision a more meaningful year as we face the challenges in the fulfillment of our mandate of depositor protection and commit ourselves to foster growth and vitality in the banking sector.

In behalf of the PDIC Board of Directors, its management and staff, we thank His Excellency for his support and reiterate our commitment to the pursuit of national development.

Very respectfully yours,

  
ERNEST LEUNG  
President

# 1994 AT A GLANCE

## January

PDIC President Vitaliano N. Nañagas II rejoins the private sector after five years of exemplary public service in the corporation.

## February

Former Acting Finance Secretary Ernest Leung assumes Presidency of PDIC and Finance Secretary Roberto F. de Ocampo chairs PDIC Board.

A group of PDIC officers is invited by the Nigeria Deposit Insurance Corporation (NDIC) to share Philippine experience on claims, receivership and liquidation operations.

A group of officers from the Bank of Tanzania, the country's central bank, visits PDIC as part of a study on finance regulatory institutions in the Asian region.

## March

PDIC approves the acquisition of a closed bank, Rural Bank of Lazi in Siquijor, by First Consolidated Rural Bank of Bohol to serve the needs of the community.

## May

In view of the concern of PDIC for Mount Pinatubo victims, the corporation draws up a policy on corporate-giving.

## June

PDIC extends credit facility to Network Rural Bank of Southern Philippines, Inc. in Davao City as an incentive for the merger of six rural banks based in Southern Mindanao.

## July

PDIC approves P1,395 million in financial assistance to Westmont Bank, formerly Associated Bank, as counterpart to the bank's capital infusion of P1,550 million, initiating rehabilitation of the bank.

## August

PDIC conducts a strategic planning workshop to establish its thrust for the next five years.

## September

PDIC holds a sportsfest to enhance camaraderie and teamwork within the corporation.

## October

The corporation conducts an operations planning workshop to set corporate priorities for 1995.

## November

PDIC releases to all member banks Regulatory Issuance No. 94-1 on the implementing rules for cease and desist orders to banks engaged in unsafe and unsound practices.

## December

PDIC enters the international bond market by purchasing discounted Philippine Government Brady bonds with face value of US\$ 6 million for the portfolio of the corporation and US\$ 2 million for the receivership and liquidation funds.

# PRESIDENT'S STATEMENT

The year was characterized by preparations for the increased globalization of our economy. With the inevitable tightening of competition, banks themselves initiated various structural reforms and strengthening of capital towards ensuring enhanced competitive position. This was witnessed in banks' streamlining of organizations for better efficiency, adoption of advanced technologies, mergers and acquisitions, and augmentation of capital base through fresh equity infusions. Expansion of the banking industry was noticeable with the 25.3% growth in total resources. This was primarily funded through deposit build-up which likewise rose by 24.4%. Quality of loan assets improved as exposure to delinquent borrowers were down to 4.7% of total lendings from 5.3% last year. Consequently, returns to stockholders were encouraging at 14.9% of their total shareholdings.

In this environment, PDIC supported the industry with improved services. Necessary skills were developed and mechanisms set in place to ensure the continued faith of the depositing public in the banking industry. And this was complemented with the further build-up of the insurance reserves to better absorb losses from possible bank failures and ensure the depositors' money are secured.



## Strengthening the Banking System

PDIC recognizes the need for the industry's preparation for the effects of growing globalization, liberalization, and rapid advancements in information technology. As achieving economies of scale plays an important component for competitiveness, PDIC continued to encourage mergers and consolidation among banks through financial incentives. And to the extent that requisites for safe banking operations are met, we have granted financial assistance to distressed and closed banks for rehabilitation purposes. So far, there were eleven of these assistance granted in the past.

Of equal importance in the industry strengthening activities of PDIC is the timely and judicious weeding out of delinquent banks in the system. In cases where depositors' interests are seriously jeopardized, instances where unsafe and unsound practices are being committed by bank officials and employees, stern regulatory measures were issued to prevent losses that may be incurred by the depositors from further increasing. In worst cases, this has led to some bank closures. For others, significant reforms and rehabilitation activities are now being undertaken.

## Claims, Receivership and Liquidation

The prompt payment of deposit insurance claims arising from bank closures is a paramount objective of the corporation. Vital to achieving this purpose is the accuracy of claims payment to ensure that the right amount is paid to the right person. Unfortunately, most closed banks tend to have dismal records which in many instances are compounded by irregularities in some banks. PDIC is compelled to go through the tedious process of organizing and validating bank records before payment starts.

In servicing depositor claims, PDIC constantly explores ways to minimize cost and provide utmost conveniences to claimants. In this regard, PDIC tapped government intermediaries called transferee banks to pay claimants and expanded this to include private banks last year.

As receiver and liquidator of closed banks, PDIC has the additional mandate to conserve assets and dispose them expeditiously in order to settle claims of creditors against the bank. The attainment of this objective depends largely on the condition of assets and records of banks. PDIC takeover of banks ordered closed by the Monetary Board has been shortened to not more than three (3) days from date of closure to ensure that assets are conserved and records are protected. In spite of these efforts, a backlog of eighty six (86) banks still need to be taken over from the Bangko Sentral ng Pilipinas (BSP). Nevertheless, sixteen (16) closure orders were implemented during the year while seventy three (73) banks were taken over from BSP bringing to 184 the number of banks under PDIC receivership by year-end. Out of the proceeds from liquidation of assets of closed banks, PDIC is able to recover payments made on deposit insurance claims.

In 1994, PDIC recovered P82.4 million largely from a big commercial bank, bringing total recoveries to P159.5 million. However, overall recovery is still stymied with only

7% of total amount of claims filed by PDIC with closed banks recovered to date. Recovery is expected to improve as the corporation aims to focus on hastening the liquidation of closed banks in the coming years.

## Financial Position

The healthy growth in collection of insurance premiums and higher yields in investments further strengthened the financial position of the corporation. Total operating income for the year increased by 26.7% to P2.01 billion of which P1.2 billion was derived from assessment premium. The principal component of this income came from assessment premium and the balance from income from financial investments. This enabled PDIC to increase its provision for insurance losses to P1.74 billion or an increase of 45.9% bringing the total reserve for insurance losses to P3.79 billion. Part of income has to be set aside to augment the capital reserves of PDIC in order to adequately cover insured deposit claims that may arise from bank failures. Net income after tax of P10.1 million for the year was 14.3% higher than last year, with half set aside as dividends to the National Treasury paid in the following year. Total taxes paid increased significantly to P174.2 million, 47.4% higher than P118.5 million in 1993. Assets grew by 14.8% to P8.82 billion as liabilities expanded by a modest rate of 2.1% to P5.66 billion.

Authorized capital of the corporation of P3 billion was fully paid up in 1994 through the conversion of PDIC's obligation to the Central Bank-Board of Liquidators into government equity.

## **Human Resource Management**

Behind the objective of PDIC to fulfill its mandate is its most important resource - its people. The mission requires a workforce of committed professionals with unquestionable integrity and responsiveness to technological innovation and changes. This must translate into quality service to meet needs of depositors and elicit responsible behavior from the banks and therefore more of effective monitoring of member banks is required to ensure a stronger banking industry. Thus, PDIC has continued to conduct training programs and seminars aimed at upgrading skills and capabilities of employees. Synergy in the workplace is improved through regular dialogues between management and employees, physical activities and health programs aimed at promoting total well-being of employees. In this regard, major initiative was taken to rationalize the compensation structure to be competitive in the environment in which PDIC operates. Together with this internal enhancement of skill, our external programs include dialogue with public by introducing savings consciousness in partnership with banks, meeting with banking associations and confederations, membership in professional organizations and participation in meetings with member banks.

## **Future Thrusts**

With efforts to deregulate and liberalize various sectors of the economy, it is imperative for market players to adjust and respond to such developments. In the process, competition is inevitable. For industries to survive, they are compelled to operate efficiently. The sooner they do, the better their chances of surviving such competition.

In the context of heightened competition, industries need more capital for improving operations through acquisition of new equipment and technology, upgrading manpower skills and seeking more ways to operate efficiently. To finance these investment requirements there should be less reliance on foreign investments and more from internal sources. The role that banks play in mobilizing savings into production and investment activities through financial intermediation is therefore crucial. Banks should be able to encourage savings by offering depositors commensurate returns. PDIC, for its part, shall extend its information dissemination campaign to increase awareness of the need to save.

In maintaining stability in the banking sector, PDIC endeavors to forge a continuous partnership with banks to sustain industry growth while minimizing risk of bank failures. In all these, sound banking discipline should not be stifled through regulation but rather on information build-up. PDIC shall continue to monitor bank performance and ensure effective supervision, requiring banks to provide accurate and timely reports. This calls for a constant upgrade of technology, where big banks are already in the forefront. Banks are taking the challenges - a well chosen path which needs to continue.

This year is indeed a prelude to hard work as the corporation faces the increasing challenges ahead, leaving no room for complacency. PDIC has to keep pace with the sea of changes and this can only be realized with a motivated and highly competent workforce. To these we dedicate ourselves.



## THE ECONOMY & THE STATE OF THE PHILIPPINE BANKING INDUSTRY

The economy continued to strengthen as real growth in gross national product (GNP) almost doubled from 2.8% in 1993 to 5.2% in 1994. In nominal terms, GNP growth accelerated from 9.8% to 15.5%. With economic growth far outpacing population growth at 2.4%, nominal per capita income improved by 12.7%, from P22,398 to about P25,244.

The year 1994 was the third year where economic growth was led by investments, expanding by 17.9% albeit lower than the 25.3% in 1993. In contrast, consumer spending that fuelled growth in the past, inched up by 12.1% from 10.1%. However, purchasing power was diminished with inflation rate rising from 7.6% to 9%. The lower growth in consumption spending (12.1%) compared to income (15.1%) resulted to a much improved savings rate. The country's gross domestic savings as measured in terms of percentage to GNP, increased from 17.9% to 20%, thereby augmenting funds for productive investments necessary for sustainable growth.

The country's current account transactions showed some improvement from 5.9% to 4.5% of GNP. This gain however, was countered by the widening trade gap in spite of the stronger export growth of 23.9% from 17.4% along with the slowdown in import growth to 19.6% from 27.6%. This was alleviated to a certain extent by the foreign exchange inflows of overseas contract workers (OCW) that resulted to an overall decline in the level of current account from US\$ 3,289 million in 1993 to US\$ 3,002 million in 1994.

The trade deficit could have been tempered if there was no significant peso appreciation during the year. The peso-dollar rate which registered at P27.73/US\$ in January 1994 appreciated to P24.15/US\$ in December 1994. The peso appreciation adversely affected the export sector and the rest of the dollar earning sectors.

While price level increased during the year, the national government attained a budget surplus of P18.11 billion in 1994 reversing past deficit trends. This caused the substantial drop in the consolidated public sector deficit (CPSD) from P30.11 billion to P9.1 billion. As a percent of GNP, CPSD declined from 2% in 1993 to 0.5% in 1994. This mitigated the cost-push effects arising from upward wage adjustments in December 1993 and April 1994 and higher power rates in April 1994.

The cost of funds should have been lowered by the improved national government's cash operations, cut in government's domestic borrowings, and the reduction in bank reserve requirements. But these were all negated by higher inflation rate. Thus, 91-day treasury bill rates increased to an average of 12.7% in 1994, thirty (30) basis points higher from last year's average of 12.4%. Real interest rates remained positive however, with moderate increase in nominal interest rates and prices.

With recent economic growth as well as generally favorable macroeconomic environment, the banking industry experienced continued growth and sustained confidence. Based on financial statements submitted, total resources of the banking industry in 1994 reached P1,255.39 billion up by 25.3% from year-ago levels, and far exceeding the 15.3% GNP nominal growth. Of this, P718.79 billion or 57.2% was channelled to loans, increasing from P564.44 billion or 27.4% as of last year. This growth in loan availment, however, was lower than previous year's 37.2% and slightly below the three-year average of 29.8%. Further, for the past three years, gross loans in the banking sector as a percentage of GNP was lowest in 1994 at 1.8% from last year's 3.7%, and 2.4% in 1992. The effect on the demand for bank loans could be attributed to the increase in funding alternatives such

as the issuance of commercial papers, direct equity availments from initial public offerings and growing foreign direct investments and credit. Consequently, banks shifted a greater percentage of their resources to investment in government securities which accounted for 15.4% of total resources amounting to P194.05 billion. Investment in government securities increased by 43% or P58.39 billion from previous year. Nevertheless, quality of loans improved as industry-wide past due loans declined from 5.3% last year to 4.7% this year.

Deposits in the banking industry, including those in overseas branches of local banks, reached P807.73 billion by year-end 1994 which accounted for 74.4% of total liabilities, registering a 24.4% growth, slightly lower than the 1993 rate of 29.1%. For the past four years, growth in savings and demand deposits in commercial banks continued to outpace growth in time deposits, increasing in 1994 by 27.5% and 14.4%, respectively. Savings and demand deposits accounted for

75.3% of total deposits in 1994. Alternative sources of funds in the form of short-term borrowings amounted to P157.93 billion increasing by 44.3% from last year. This comprised 14.6% of total liabilities which was an increase from last year's 12.6%.

Total net worth rose by 27.1% from P134.18 billion to P170.59 billion mainly brought about by new infusions as the system continues to strengthen its competitive position against the entry of ten (10) new foreign banks next year. Capital to total assets ratio stood at 13.6% up from 13.4% in 1993.

The banks continue to yield high interest spreads as net interest income account for a bigger share of the total net revenues, from 60.9% in 1993 to 68.2% in 1994. Net income as a percentage of total assets grew to 2% this year which is significantly higher than the 1.2% realized by the US banking industry for the same period. On the other hand, net income as a percentage of capital increased to 14.9% from 14.8% last year.

## DEPOSIT LIABILITIES OF COMMERCIAL BANKS

(by type of account)

1990 - 1994

	LEVELS (in million pesos)					GROWTH RATES (in %)			
	1990	1991	1992	1993	1994	1991	1992	1993	1994
Demand	35,841.45	43,375.98	44,931.55	56,627.84	66,911.50	21.0	3.6	26.0	18.2
Savings	186,110.80	219,186.55	275,314.82	372,309.86	480,003.57	17.8	25.6	35.2	28.9
Sub-total	221,952.25	262,562.53	320,246.37	428,937.70	546,915.07	18.3	22.0	33.9	27.5
Time	103,218.36	120,611.80	132,264.57	156,746.11	179,287.52	16.9	9.7	18.5	14.4
Total	325,170.61	383,174.33	452,510.94	585,683.81	726,202.59	17.8	18.1	29.4	24.0

Source: Consolidated Statement of Condition of member banks submitted to PDIC

Below are some indicators of the industry's efficiency:

The policies that were implemented to deregulate and liberalize the financial sector is expected to induce stiffer competition. The increase in capital requirements and the relaxation of branching rules are some significant preparations for the domestic banks to become more competitive. Competition will be heightened by the entry of new banks, particularly foreign banks, that are backed up by large resources and advanced banking technologies. In this environment, the ability of domestic banks to carve out market niches, contain costs and manage risks, adopt and utilize technologies to their advantage, and respond to client needs with better services and customer-sensitive products, will be the keys to survival. Banks for their part, therefore, need to set well defined strategic directions

which shall pave the way for a proactive decision-making stance that will allow market players to spot market opportunities and better anticipate risks.

In response to all these changes, regulators will have to adapt to ensure a safe and sound banking system with the least intervention to market forces. Along these lines, greater reliance on information and transparency of operations will be critical to promote the banking system and the welfare of the general public.

**Sources of data:**

- Bangko Sentral ng Pilipinas
- National Economic and Development Authority
- Department of Finance
- Securities and Exchange Commission
- Philippine Deposit Insurance Corporation

**EFFICIENCY MEASURES FOR BANKS, 1992-94**  
(in %)

Efficiency Measures	1992	1993	1994
Non-interest Expenses to Total Assets	4.4	4.1	3.9
Non-interest Expenses to Net Revenues	67.2	72.9	71.2
Net Interest Income to Non-interest Expenses	91.7	83.5	95.7

Source: Philippine Deposit Insurance Corporation

## PHILIPPINE BANKING SYSTEM

As of Dates Indicated  
In Billion Pesos

	1990 *	1991 *	1992	1993	1994
<b>A. Resources</b>	<b>590.60</b>	<b>689.87</b>	<b>798.32</b>	<b>1,001.57</b>	<b>1,255.39</b>
Loans	281.22	332.97	411.33	564.44	718.79
Liabilities	527.65	609.05	684.16	867.39	1,084.81
Deposits	352.01	425.32	503.05	649.25	807.73
Capital	62.94	80.82	114.16	134.18	170.59
<b>B. Operations</b>					
Interest Income	63.18	79.61	75.67	77.68	103.74
Interest Expense	30.60	47.68	43.72	43.08	56.98
Net Interest Revenue	32.58	31.93	31.94	34.61	46.76
Operating Income	18.19	14.76	19.92	22.21	21.83
Operating Expense	26.35	30.26	34.83	41.43	48.86
Net Operating Revenue	24.42	16.43	17.02	15.39	19.73
Extraordinary Items	3.31	2.73	2.90	4.03	5.71
Net Income Before Tax	27.73	19.16	19.92	19.42	25.44
<b>C. Ratios (in percent)</b>					
1. Return On Assets (Net Inc./Tot. Assets)	2.80	2.48	2.50	1.98	2.03
2. Intermediation (Loans/Deposits)	80.93	78.12	79.63	85.13	87.16
3. Branch Density * (Branch/Municipality or City)	1.41	1.56	1.90	2.15	2.56
4. Capital/Total Assets	10.66	11.72	14.30	13.40	13.59

Sources of data:

Consolidated Statements of Condition of member banks submitted to PDIC

Consolidated Statements of Income and Expenses of member banks submitted to PDIC

\* Bangko Sentral ng Pilipinas

# INSURANCE OPERATIONS

Insurance operations cover monitoring of insurance premium collection, setting up of adequate provisions to absorb insurance losses from bank closures, building up of

insurance fund, and determining risk exposure on insured deposits.

## Estimated PDIC Risk Exposure Under the P100,000 Insurance Coverage

As of December, 1994 (Amount in thousand pesos)

TYPE OF BANK		Total Deposits				TOTAL
		P100,000 & below	% of total	Over P100,000	% of total	
Commercial Banks	Accounts	10,260,475	93.0	775,816	7.0	11,036,291
	Amount	96,150,286	14.8	552,401,590	85.2	648,551,876
Thrift Banks	Accounts	4,615,733	98.3	77,874	1.7	4,693,607
	Amount	17,776,939	27.8	46,226,196	72.2	64,003,135
Rural Banks	Accounts	3,772,140	99.3	26,516	0.7	3,798,656
	Amount	10,020,047	56.9	7,594,943	43.1	17,614,990
Specialized Gov't. Banks	Accounts	526,034	93.2	38,576	6.8	564,610
	Amount	4,861,453	7.2	62,872,405	92.8	67,733,858
<b>TOTAL</b>	Accounts	19,174,382	95.4	918,782	4.6	20,093,164
	Amount	128,808,725	16.1	669,095,134	83.9	797,903,859

TYPE OF BANK		Insured Deposits				TOTAL
		P100,000 & below	% of total	Over P100,000	% of total	
Commercial Banks	Accounts	10,260,475	93.0	775,816	7.0	11,036,291
	Amount	96,150,286	55.3	77,581,600	44.7	173,731,886
Thrift Banks	Accounts	4,615,773	98.3	77,874	1.7	4,693,647
	Amount	17,776,939	69.5	7,787,400	30.5	25,564,339
Rural Banks	Accounts	3,772,140	99.3	26,516	0.7	3,798,656
	Amount	10,020,047	79.1	2,651,600	20.9	12,671,647
Specialized Gov't. Banks	Accounts	526,034	93.2	38,576	6.8	564,610
	Amount	4,861,453	55.8	3,857,600	44.2	8,719,053
<b>TOTAL</b>	Accounts	19,174,422	95.4	918,782	4.6	20,093,204
	Amount	128,808,725	58.4	91,878,200	41.6	220,686,925

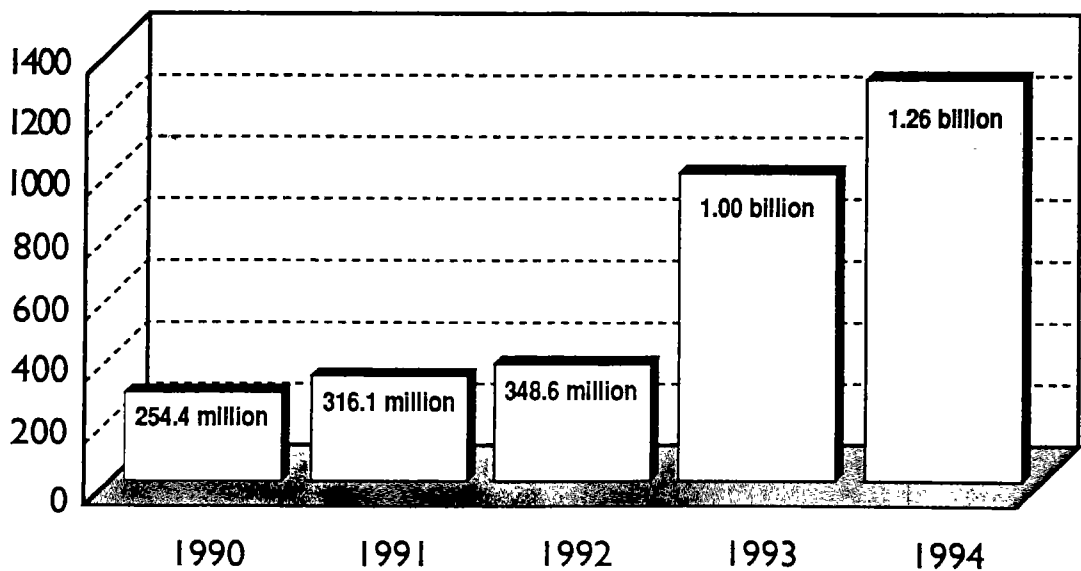
## Premium Collection

Premium collection totalled P1.26 billion, up by 26.4% from P1 billion in 1993. This was due to the increase in domestic deposit liabilities reinforced by prompt payment of insurance premium by majority of member banks. This reflected higher level of responsibility among banks enhanced by a simplified assessment process.

Domestic deposits increased by 25% from P638.15 billion in 1993 to P797.9 billion in 1994. This was primarily traced to high income and savings coupled with entry of twenty five (25) new banks and additional 431 branches.

Compliance was further enhanced by enforcement of the power to terminate insured status of non-paying member banks. This adds to the expansion of the base for contributions to the fund for payment of deposits in closed banks. Furthermore, termination of insured status is intended to enforce sound banking practices; the most fundamental form of protection for depositor. This power was made effective in the 1992 charter amendment. As a result, insured status of thirty three (33) banks was terminated by end of 1994. Seventeen (17) of these banks are located in Lanao where peace and order condition rendered difficult the conduct of examination for determination of remedial measures. Four (4) other banks are in the process of correcting deficiencies identified by PDIC in order to regain insured status. Twelve (12) were eventually closed by BSP. PDIC is obligated to pay insured deposits in ten (10) of these

## PREMIUM COLLECTIONS



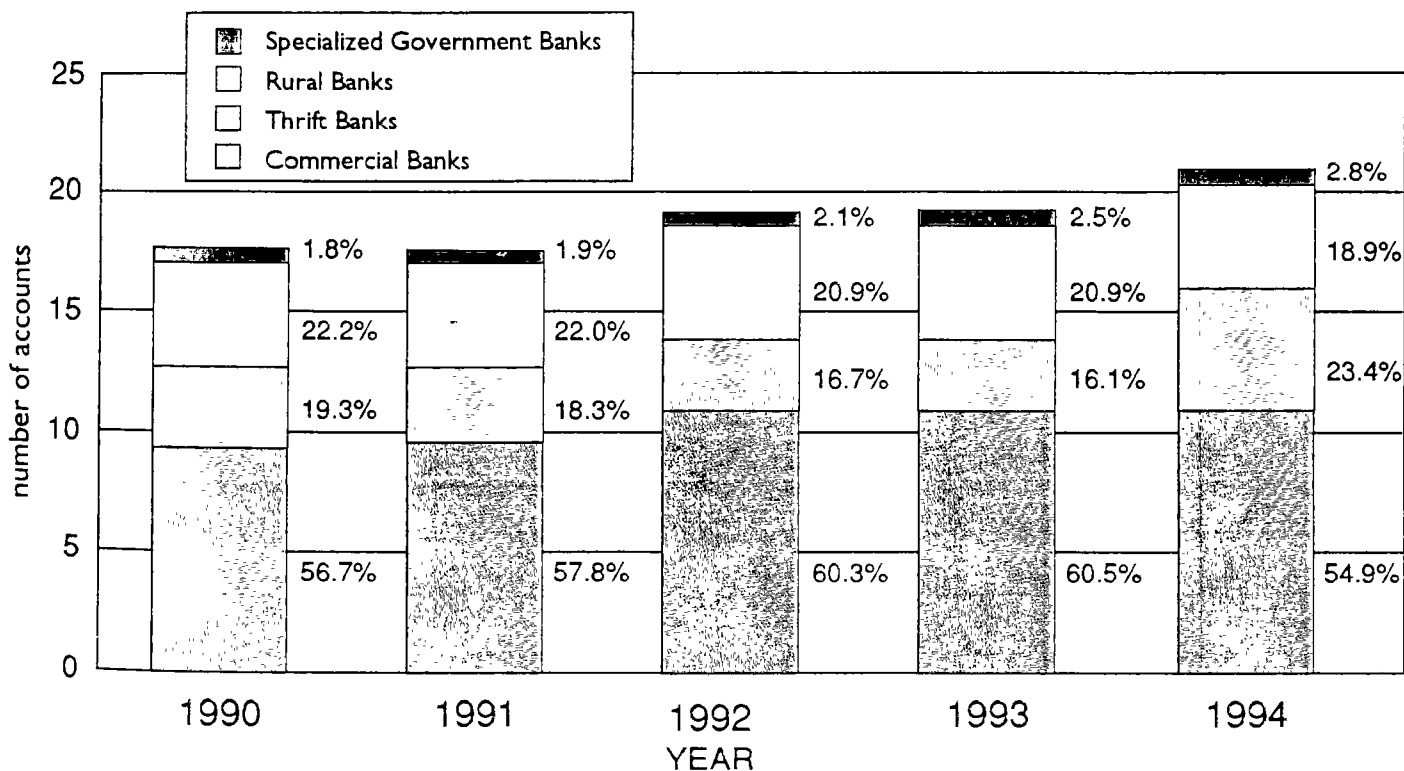
banks since depositors continue to enjoy insurance protection up to ninety (90) days from date of termination.

Currently, PDIC uses the maximum rate of 1/5 of 1% of total deposit liabilities per annum in the assessment of insurance premium. This ceiling was increased by law from 1/12 of 1% to enable PDIC to accelerate reserve build-up necessary to cover insurance losses. Past in-adequacies in reserves resulted to substantial borrowings from BSP to service depositor claims in closed banks. Upon attainment of a prudent level of reserves to meet contingencies, the

corporation intends to adjust premium downwards. PDIC is currently studying the possibility of differentiated premium structure based on risk that a member bank poses on PDIC in case of bank closure. Such a risk-based scheme would reward better performers with a lower rate.

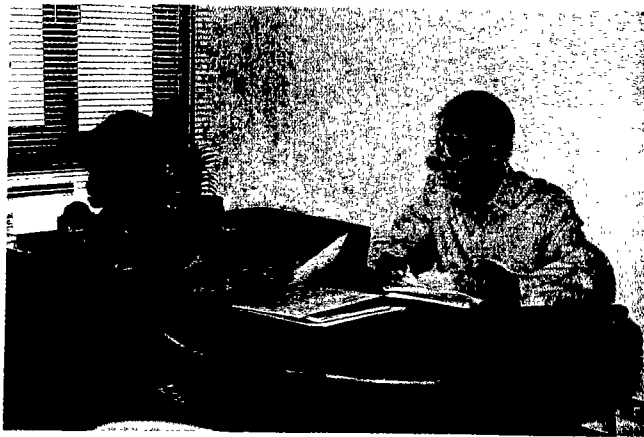
### Deposit Accounts per Type of Bank in the Philippine Banking System

(in millions)



## Risk Exposure

As of December 31, 1994, insured deposits was estimated at P220.69 billion. This accounts for 27.7% of the total deposit liabilities in the banking system of P797.9 billion comprising 20.1 million accounts. Of this, P128.81 billion was fully covered consisting of 19.2 million accounts involving individual deposit accounts of up to P100,000, providing a greater safety net for the lower income group. The balance of P669.1 billion comprising 0.9



SVP for Insurance and Examination Caesar Parlade confers with VP for Special Assistance and Actions Group Beverly Sanchez

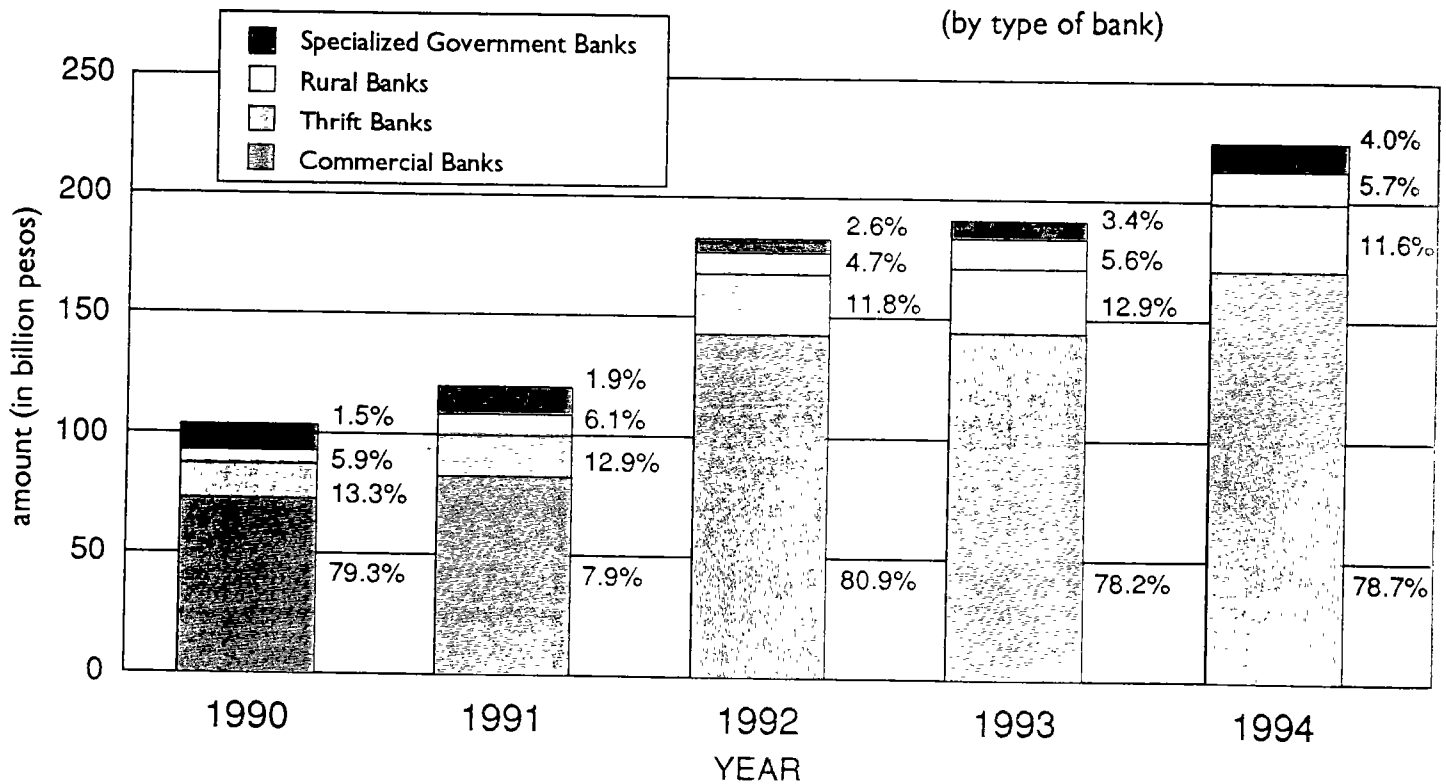
million accounts of individual deposits in excess of P100,000 have partial insurance coverage up to the limit.

The Deposit Database Monitoring System has been developed and is continuously being upgraded. This is designed to provide and amplify automated information

on deposit data intended to serve the deposit information needs of the public.

## PDIC RISK EXPOSURE

(by type of bank)



## Assessment Audit

To verify the correctness of premiums paid to PDIC, assessment audits of certified statements filed by member banks were undertaken through either desk or on-site verification resulting to additional premium collection of

P1.2 million. Desk audit is confined to the checking of submitted certified statements against statements of condition and other supporting schedules. On-site assessment audit involves detailed verification of pertinent books and records at bank premises.



## EXAMINATION & SUPERVISION

The best form of depositor protection is ensuring a strong banking system with no bank failures. This is the primary objective of bank supervision. In pursuit of this mission, PDIC was given additional powers in 1992 to conduct independent bank examination and to enjoin adherence to sound banking practices.



PDIC has likewise put in place an off-site monitoring system to detect problems for early remedial action.

Bank examinations are conducted by PDIC to supplement the primary supervisory responsibility of BSP. Examinations are done selectively, limited in purpose, and focused on risk areas identified in off-site monitoring activities. The process involves exhaustive use of information from BSP and continuing dialogues with bank management to formulate and monitor effective

measures to correct deficiencies noted in examinations, geared mainly towards ensuring adequacy of capital and quality of management.

Banks found to be engaging in unsafe and unsound practices are required to finalize their commitments to correct deficiencies in a Deed of Undertaking

(DOU). Non-compliance with such DOU could subject the bank to fines and penalties which could lead to the issuance of a Cease and Desist Order (CDO) if unsafe and unsound practices remain uncorrected. The CDO will restrict the bank in certain activities and may include prohibition from accepting new deposits and extending new loans.

Below is a summary of the bank examinations conducted by PDIC:

### ON-SITE EXAMINATIONS, 1993-94

TYPE	PURPOSE	1993	1994
Integrity Review	Verification of integrity of bank's accounting and reporting system	38 RBs	4 RBs
On-Site Examination	Identification of risk areas and development of corrective measures	5 KBs 11 RBs 6 TBs	10 TBs 2 KBs 22 RBs
Total		60	38

Integrity reviews are meant to assess the soundness of a bank's accounting and reporting system to determine whether reliance can be placed in reports being submitted to PDIC. Integrity reviews were reduced in 1994 which enabled PDIC to increase its on-site examinations in 1994.

Through these examinations, PDIC was able to have a clearer grasp of the problems facing a banking institution and was able to formulate more effective corrective measures. At the very least, the examination findings have forced bank management to take full cognizance of the bank's problems and compelled them to adopt a remedial action plan. Although rehabilitation of problem banks is a long and difficult process, PDIC's regulatory intervention has brought back a number of banks to operational stability. While permanent capital is still forthcoming, PDIC in some cases lent liquidity support to banks found deserving of financial assistance through examinations. Even on those instances where examination findings led to closure, examinations had the positive effect of weeding out from the system those banks which do not qualify as deposit taking institutions.

In carrying out its supervisory function, PDIC is sensitive to costs involved, both to itself and to the banking system. Consequently, PDIC maximizes the use of available information from BSP and relies on an off-site monitoring system to selectively choose banks for examination which include problem and sound

banks. Such off-site monitoring is based mainly on inputs submitted by banks and designed to promptly identify evolving problems.

The Financial Condition Monitoring System (FCMS) and Deposit Database Monitoring System (DDMS) have been set up and continued to be upgraded. The ultimate objective is to have an automated information network with banks that would allow ready access to bank information and generate information for the enlightenment of the public. FCMS will enable the generation of financial data, ratios and trends to facilitate an effective off-site monitoring of member banks. It will also help establish an early warning system for timely identification of financial weaknesses in and excessive risk taking by banks. DDMS, on the other hand, will simplify the compilation of statistics to serve internal and external requirements for deposit data.

The usefulness of these databases is dependent on timely submission of accurate reports by banks. Unfortunately, the system suffered in the past, from chronic delay in submissions reaching a high of 47.5% delinquency rate as of December 31, 1993. To address this situation, PDIC released Regulatory Issuance No. 93-1 in January 1994 clearly defining its reportorial requirements with sanctions on delinquent submissions. Following this, nineteen (19) banks were cited and penalized. Delinquency rate subsequently dropped to 20% as of December 31, 1994.

# BANK STRENGTHENING

In pursuance of its mission of strengthening the banking system, PDIC through its Insurance and Examination Sector (IES) continued to work with BSP, LBP, and banks on projects for liquidity safety nets and capital enhancements.

## Liquidity Pool

A liquidity pool program was set up starting 1989 as a facility to immediately address temporary liquidity requirements of rural banks (RB). This is a trilateral agreement among PDIC, LBP and RB federations. Access is in three (3) tranches with the first to be drawn from contributions of participating banks in the pool, with extent of availment depending on the agreement of participating banks. The second tranche is to be drawn from LBP not to exceed drawings from the first tranche. The third tranche, up to a maximum of 50% of the total deposit liabilities of the availing bank, is provided by PDIC within two (2) working days upon completion of documentation requirements. The PDIC assistance has to be fully collateralized and is premised on the condition that the liquidity problem was not caused by any unsafe and unsound practices.

From inception of the program in 1989, twenty two (22) banks availed of their respective first tranche facilities and eight (8) for their corresponding second tranche. Only one (1) bank availed of the PDIC assistance. This was in 1993 which was fully repaid in 1994.

There are twenty three (23) liquidity pools in operation, participated in by 364 rural banks. The reduction

from the twenty seven (27) pools of the previous year could be attributed to any of the following reasons: some who have attained self-reliance opted to manage their own arrangements for standby liquidity credit; some were averse to sharing information with officers of liquidity pool; some officers of pools were reluctant to deny requests of those not qualified for availment of assistance; and others preferred to avoid risk of lending to illiquid banks given some negative information circulating.

## CFI Enhancement Program

BSP, LBP and PDIC launched the Countryside Financial Institutions Enhancement Program (CFIEP) in 1991 as a systematic capital build-up program for rural and thrift banks servicing mainly the countryside. The program offered three (3) modules to meet varying needs of qualified banks.

Module I gave incentives for fresh capital infusions to meet minimum capital requirement, with a leverage to buy-back debts with BSP at 50% discount. A total of 171 banks have availed of this opportunity, thirty six (36) of which were accommodated in 1994 as a result of the extension of the program.

Module II entailed matching of fresh private capital in qualified banks by LBP in preferred shares which carry guaranteed dividend rates ranging from 4% to 12% per annum, depending on the term of the redemption period. There were 142 banks which availed of this facility, of which sixty one (61) utilized Module I as well.

PDIC, through Module III, provided incentive to

mergers to eliminate weak banks from the system by extending financial assistance to the acquiring bank. The financial assistance is invested in government securities. The spread allows the acquiring bank to write off at least half of bad loans of weak banks. The Network Rural Bank of Southern Philippines, Inc. (Network Bank), formerly Rural Bank of Davao City, qualified to obtain a loan under the program by merging with five (5) other RBs. Network Bank has since tripled its capital, transforming it into a much stronger bank, more effectively serving the needs of the burgeoning region of Mindanao.

## **Mergers and Consolidation**

Larger operations result in economies of scale and diversification of risks. PDIC, therefore, supports mergers and consolidation among banks and has approved nine (9) applications involving thirty four (34) banks since 1988. Two (2) of these were in 1994, Union Bank with Interbank and Pres. J.P. Laurel Rural Bank in Tanauan, Batangas with Rural Bank of Rosario in Batangas.

## **Rehabilitation of Banks**

PDIC is authorized to grant financial assistance to banks in distress only if such is less costly than the estimated payments of deposit insurance claims in the event of closure. In addition, the following minimum conditions must be met:

a) For an insured bank in danger of closing, its continued operation must be essential to provide ade-

quate banking services in the community or to maintain stability in the financial system;

b) For a closed bank, its resumption of operations must be vital to the interests of the community and will maximize recovery of subrogated claims on deposits, with reopening subject to approval by the Monetary Board;

c) For a corporation acquiring control of, merging or consolidating with, or acquiring the assets of a bank in danger of closing or of a closed bank, compliance with conditions referred to under either paragraphs a or b above.

Financial assistance to banks is resorted to only when it is deemed extremely necessary to augment the bank's recapitalization requirements.

Compared to previous year, total number of banks under financial assistance in 1994 decreased by one with the prepayment of a commercial bank of its entire obligation to PDIC. The number of commercial banks under financial assistance, however, remained at three (3) with the conversion of a client thrift bank to a commercial bank in 1994.

A net increase of P492.2 million in financial assistance was registered in 1994. This is the result of additional disbursements to Westmont Bank (formerly Associated Bank), against repayment from others. Of the P1.42 billion financial assistance granted to Westmont Bank, P1.12 billion had been released. This assistance involved the purchase of assets at 25% discount. The Bank committed to an unconditional buy-back of such assets over a 10-year period and provided adequate collateral to secure this obligation.

The Philippine Banking Corporation prepaid its

entire P312.5 million loan obligation to PDIC last September 1994. Citing its major rehabilitation efforts, they requested for rebates of past penalties paid. This is currently under review to take account of progress in the rehabilitation program.

### Acquisition of Banks Under Liquidation

Acquisition of assets and assumption of liabilities of banks under liquidation are allowed if the acquisition proposal proves to be more beneficial to the depositors and other creditors of the bank than adherence to regular liquidation process.

The acquisition of the closed Rural Bank of Argao in Cebu which was approved by the Monetary Board during the year based on PDIC's earlier endorsement will enable PDIC to recover subrogated claims amounting to P2.4 million early next year.. The other proposal to acquire the closed Rural Bank of Lazi in Siquijor by the First Consolidated Rural Bank of Bohol still requires approval of the Liquidation Court. This is expected to enable PDIC to realize early recovery of subrogated claims totalling P0.9 million.

In response to growing investor interests, a database providing statistics on banks under liquidation has been developed for a more systematic matching of such banks with prospective investor specifications.

### BANKS UNDER PDIC FINANCIAL ASSISTANCE

TYPE OF BANK	No. of Banks under Financial Assistance		Outstanding (In Million Pesos)	
	1993	1994	1993	1994
Commercial Bank	3	3	695.80	1,216.68
Thrift Bank	4	3	434.20	405.50
Rural Bank	2	2	0.54	0.54
TOTAL	9	8	1,130.54	1,622.72

# CLAIMS MANAGEMENT

As insurer, the objective of the corporation in every bank closure is to immediately pay legitimate depositors the correct amount of their insured deposits. Toward this end, PDIC takes over without delay, the bank that has been ordered closed by the Monetary Board, verifies as quickly as it can the records of the bank to determine the correct amount of insured deposits, and selects the payment scheme most convenient for the depositors of the bank. PDIC then notifies the depositors when they can start filing their claims for payment of insured deposits and when their right to file such claims prescribes.

Unfortunately, PDIC encounters difficulties which deter the early payment of insured deposits. Closure orders are at times not readily accepted by bank officers and on occasion, owners of the bank contest these orders in court. Deposit records of many closed banks are in such poor condition that PDIC takes some time in verifying with utmost care the genuineness of deposits and insured amounts. Further, incomplete or unupdated bank records prevent PDIC from directly notifying depositors through mail of their right to claim their insured deposits from PDIC within eighteen (18) months from date of bank closure and ultimately paying their insured deposits.

In order to attain its objective, PDIC endeavors to continuously improve its internal systems. However, it also recognizes that properly managed records of banks while in operation are equally important in the accom-



A PDIC team roves around town to announce the start of applications for claims for insured deposits in a closed rural bank

plishment of the objective. Hence, in the future, the corporation will assume a more proactive role to ensure proper record keeping of banks through effective monitoring and regulatory issuances. Much can also be achieved if only depositors are vigilant and require that banks always keep accurate and current records of their deposit accounts.

## Claims Settlement

The primary consideration of PDIC in selecting a payment scheme for the settlement of claims

during the first eighteen (18) months after the closure of a bank, the prescriptive period, is the convenience of the depositor.

The transfer deposit scheme which is more actively used since 1991, is a take-off from earlier pay-out mode. Under this scheme, an operating bank located nearest the site of the closed bank is designated by PDIC as transferee bank to service the depositors of the closed bank on behalf of the corporation. Although not as conveniently located to depositors as the site of the closed bank, the transferee bank provides depositors the advantage of an 18-month window for the filing of their claims for insured deposits against PDIC and receipt of payment thereof. Furthermore, depositors may exercise the option to maintain their deposits with the transferee bank.

On the other hand, the direct settlement scheme is used for closed banks located in remote areas and where

transferee banks are not accessible or not willing to handle transfer deposit operations for PDIC. The scheme involves direct payments by PDIC disbursing officers at the site of the closed bank. Payments made under this scheme have proved to be most convenient for the depositors. However, this scheme is not a continuous operation since PDIC disbursing officers are deployed to the bank only periodically during the 18-month pre-

scriptive period.

The depositors, nonetheless, have the ultimate option of claiming payment of their insured deposits at PDIC or having the payment sent to them by mail. This option is applicable to claims which remain unsettled after the 18-month prescriptive period.

For the year 1994, PDIC paid a total of 2,910 accounts amounting to P25.7 million involving eighty

### PAID CLAIMS

Cumulative and 1994 Figures  
(Amount in Million Pesos)

TYPE OF BANK / PAYMENT SCHEME	CUMULATIVE AS OF DECEMBER 31, 1994 *		PAYMENTS FOR 1994	
	ACCOUNTS	AMOUNT	ACCOUNTS	AMOUNT
<b>COMMERCIAL BANKS</b>	<b><u>236,881</u></b>	<b><u>P 979.05</u></b>	<b><u>232</u></b>	<b><u>P 1.51</u></b>
Transfer deposit scheme	0	0.00	0	0.00
Direct settlement scheme	233,129	960.76	0	0.00
PDIC Head Office payments	3,752	18.29	232	1.51
<b>THRIFT BANKS</b>	<b><u>710,174</u></b>	<b><u>P 1,867.89</u></b>	<b><u>326</u></b>	<b><u>P 4.80</u></b>
Transfer deposit scheme	434,930	831.06	0	0.00
Direct settlement scheme	271,172	1,007.34	0	0.00
PDIC Head Office payments	4,072	29.49	326	4.80
<b>RURAL BANKS</b>	<b><u>181,645</u></b>	<b><u>P 328.94</u></b>	<b><u>2,352</u></b>	<b><u>P 19.42</u></b>
Transfer deposit scheme	10,650	39.35	991	7.08
Direct settlement scheme	153,289	212.52	376	1.34
PDIC Head Office payments	17,706	77.07	985	11.00
<b>GRAND TOTAL</b>	<b><u>1,128,700</u></b>	<b><u>P 3,175.88</u></b>	<b><u>2,910</u></b>	<b><u>P 25.73</u></b>
Transfer deposit scheme	445,580	870.41	991	7.08
Direct settlement scheme	657,590	2,180.62	376	1.34
PDIC Head Office payments	25,530	124.85	1,543	17.31

\* Inclusive of adjustments

four (84) closed banks. The corporation paid P7.1 million on 991 insured deposits in six (6) rural banks through the transfer deposit scheme, while it paid P1.3 million on 376 deposit accounts in two (2) rural banks under the direct settlement scheme. Payments by PDIC at Head Office and through mail totaled P17.3 million on pending claims for 1,543 insured deposits in seventy six (76) banks closed prior to 1994. However, had the depositors who were duly informed of the approval of their claims come forward to claim payment of their insured deposits, an additional P5.1 million could have been paid on 11,379 deposit accounts.

In all its previous transfer deposit schemes, PDIC has used the branches of government banks nearest to the closed banks, such as Philippine National Bank (PNB) and Land Bank of the Philippines (LBP). However, during the year, the corporation designated its first private transferee bank, the Rural Bank of Canaman, Inc. (RBCI) for the claims settlement operations in the Rural Bank of Bula (Camarines Sur), Inc. (RBBI). While PDIC initially considered government banks, PNB and LBP branches were not as close to RBBI as RBCI, which is located in the same town as the closed

bank. The selection of either PNB or LBP as transferee bank would therefore have inconvenienced the depositors of RBBI, particularly small depositors whose accounts represented 45% of the total number of deposit accounts.

### Subrogated Deposits

PDIC acquires through subrogation the right to recover from the closed bank the amount of insured deposits paid off. Claims for subrogated deposits are filed by PDIC with the liquidator for settlement through liquidation or acquisition of the closed bank.

During the year, PDIC filed claims against ninety one (91) banks under liquidation with subrogated deposits aggregating P196.1 million. This brought to a total of P2.24 billion the claims filed against 240 closed banks. Compared to the total payments made by PDIC to insured depositors of P3.18 billion as of year-end, the large difference of P937 million represents the payment of insured deposits in The Manila Banking Corporation, one (1) thrift bank and thirty two (32) rural banks where amounts paid therein have not yet been reviewed and claimed.

### PENDING CLAIMS

As of Dates Indicated  
(Amount in Million Pesos)

STATUS	DECEMBER 31, 1993		DECEMBER 31, 1994	
	ACCOUNTS	AMOUNT	ACCOUNTS	AMOUNT
Awaiting claimants *	11,424	P 5.30	11,379	P 5.06
Awaiting submission of required documents *	17,111	174.70	14,517	95.51
With legal issues	3,499	41.90	5,899	75.36
TOTAL	32,034	P 221.90	31,795	P 175.93

\* Depositors duly notified of approval of claims / documentation requirements



Recoveries in 1994 on claims for subrogated deposits filed amounted to P82.4 million, the bulk of which came from the settlements made by the rehabilitated Philippine Veterans Bank. By year-end, recoveries on subrogated deposits totaled P159.5 million from twenty seven (27) closed banks, a poor 7% of the total amount of claims filed and a mere 5% of the exposure of PDIC

for the insured deposits of P3.18 billion it paid in 274 closed banks. The insignificant recovery is mainly due to slow liquidation of closed banks. This is expected to improve since PDIC, as the mandatory receiver/liquidator, aims to hasten the liquidation process and distribute the assets of a number of closed banks to their creditors as soon as possible.

### PDIC RECOVERIES

As of December 31, 1994  
(Amount in Million Pesos)

	COMMERCIAL BANKS		THRIFT BANKS		RURAL BANKS		TOTALS	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
INSURED DEPOSITS PAID	5	P979.05	36	P1,867.89	233	328.94	274	P3,175.88
CLAIMS FILED	4	129.62	35	1,843.21	201	265.08	240	2,237.91
RECOVERIES	<u>4</u>	<u>129.62</u>	<u>3</u>	<u>19.97</u>	<u>20</u>	<u>9.91</u>	<u>27</u>	<u>159.50</u>
Rehabilitated Banks	3	122.88	2	19.75	14	0.92	19	143.55
Liquidated Banks	1	6.74	1	0.22	6	8.99	8	15.95
<b>RECOVERY RATIOS</b>								
Recoveries to Insured Deposits Paid								5%
Recoveries to Claims Filed								7%

There are a total of 295 closed banks as of year-end 1994. Of this number, PDIC has no exposure for subrogated deposits in twenty one (21) closed banks. Reasons for this are:

- The deposit liabilities of PACIFIC BANKING CORPORATION were assumed by Far East Bank and Trust Company when the latter entered into an agreement to purchase the assets and assume the liabilities of the closed commercial bank.

- ROYAL SAVINGS BANK and three (3) rural banks were rehabilitated before PDIC could start its claims settlement operations.

- Activities preparatory to claims settlement operations are still ongoing in ten (10) rural banks closed during 1994. PDIC shall start payment of insured deposits in these banks in 1995.

- PANAY THRIFT BANK and four (4) rural banks, closed in 1994, have not yet been completely taken over by PDIC. The owners of these banks have questioned the closure of the banks in court. The courts have issued an injunction which now prevents PDIC from continuing its takeover activities and payment of insured deposits.

- The Monetary Board authorized the voluntary dissolution of the RURAL BANK OF JOLO SULU, INC. in Resolution No. 954 dated May 13, 1977. On this basis, the Central Bank placed the bank under receivership and took an inventory of the assets, books and records which remained after a fire destroyed a majority of these on February 7, 1974. Further developments on the receivership/dissolution of the bank were nil as the Central Bank found the deployment of a deputy impractical and costly. Meanwhile, questions arose regarding the status of the bank since the owners did not comply with the legal requirements for the dissolution of the bank, which ultimately gave rise to PDIC queries on the insurability of the deposit liabilities of the bank and the prescription of the right of depositors to file claims against PDIC. To date, the corporation has yet to receive a response from the Office of the Government Corporate Counsel on its referral on insurability and prescription issues.

In the last two instances where PDIC is impeded from commencing its claims settlement operations, it is the depositors of the closed banks who suffer. The call now is to appeal to the social conscience of bank owners and think of depositors who entrusted their hard earned money to banks when these were still in operation.

# RECEIVERSHIP & LIQUIDATION

The corporation continues to implement the takeover of banks ordered closed by the Monetary Board (MB) and banks closed in the past which are under the management of the Bangko Sentral ng Pilipinas (BSP) and to administer bank assets for the benefit of their creditors and stockholders. Efforts are directed towards the quick conversion of non-

cash assets into cash so that early distribution of liquidating dividends to proper claimants could be effected or liquidation process be completed. However, achievement of this objective is hampered largely by the poor condition or absence of records to prove bank ownership over properties and right to collect receivables, as well as litigation problems, adverse claims, imperfected collaterals, fake titles, borrowers who could no longer be located, and inexistence of properties supposedly owned by or mortgaged to the banks.

To minimize if not eliminate the recurrence of record-related problems, the corporation has taken the major initiative of implementing prompt takeover of banks ordered closed by MB in order to prevent the dissipation of bank assets and safeguard records against loss and/or tampering. The corporation is also exploring ways of conducting speedy and cost-effective liquidation process.

## Takeover Operations

During the year, the corporation took over sixteen (16) banks ordered closed by MB of which one (1) was a thrift bank (TB) and fifteen (15) were rural banks (RBs). Included in the sixteen (16) banks are four (4) RBs in the province of Capiz and one (1) TB in Aklan, all belonging to an influential family in Capiz. The takeover of these banks was interrupted and suspended due to legal constraints.

The process of transferring closed banks under BSP administration to PDIC continued with the takeover of



SVP for Claims, Receivership and Liquidation Rosalinda Casiguran (left) meets with VP for Receivership and Liquidation (R & L) Aurora Baldoz and VP for R & L - Operations Control Office Elenita Vidal

additional seventy three (73) banks. These and the sixteen (16) banks closed during the year brought the total number of banks under receivership and liquidation (R&L) by PDIC to 184 by end of 1994, nearly doubling last year's figure of ninety five (95) banks. Eighty six (86) closed banks still remain with BSP which the corporation

has targeted to take over in 1995.

Eleven (11) of sixteen (16) banks closed in 1994 were taken over within two (2) days from date of receipt of MB resolutions. The other five (5) banks which are located in far-flung areas were taken over within five (5) days. The combined book value of assets of the eleven (11) banks closed in 1994 amounted to P86.6 million while liabilities totaled P175.3 million of which P69.8 million are deposit liabilities. The three (3) biggest banks have a combined book value of assets of P51.5 million and total liabilities of P80.8 million of which P44.8 million are deposit liabilities.

## Asset Management and Disposal

During the year, a total of P115.6 million representing payments of principal, interests and penalties on loans was collected while P31.7 million was realized from sales and rentals of various properties. The bulk of loan recoveries was generated through compromise settlements which involved condonation of penalties and/or reduction of interest rates on loans. Property disposals during the year were made through public bidding and negotiated sales, the latter covering properties which have previously undergone bidding but remained undisposed.

The P147.3 million total proceeds were invested in government securities pending distribution to creditors. These additional investments and interests earned thereon.

together with earnings on previous years' fund balance, accounted mainly for the increase in funds held in trust by PDIC for R&L banks, from P2.46 billion as of December 31, 1993 to P3.25 billion as of December 31, 1994. The increase in funds held in trust is also attributed, although in modest percentage only, to cost-effectiveness measures undertaken during the year. These included the retrenchment of retained employees to minimum level and the consolidation of liquidation sites as follows: six (6) TBs to Piso Bank, two (2) TBs to Banco Primero, one (1) TB to Pioneer Savings and Loan Bank, one (1) RB to Development Bank of Rizal, and Pacific Bank to a less expensive office space.

Of the P3.25 billion total funds held in trust by PDIC for R&L banks, P957.1 million belonged to one (1) commercial bank, P2.11 billion to thirty (30) thrift banks and P183.7 million to 125 rural banks. With the full implementation of the computerized Funds Monitoring System (FMS) for R&L, the accounting of funds held in trust and computation of interest earnings for each bank was facilitated. The FMS also enabled the generation of the Statement of Funds Held in Trust and other financial reports for each closed bank on a periodic basis.

The management of Real and other Properties Owned or Acquired (ROPOA) of closed banks improved with the implementation in 1994 of the computerized ROPOA system on sixty four (64) banks. The system is being enhanced to enable it to generate a consolidated list of ROPOA according to location (by region, province, or town), size, and type of property. The quick access to information that will be derived from the enhancement will allow the corporation to respond promptly to queries of potential buyers. It will also facilitate proper scheduling and programming of appraisals of acquired real properties of closed banks which involve an estimated total number of 9,300. This number does not include acquired real properties of five (5) closed banks in Capiz where takeover was suspended.

Efforts to collect receivables are continuously being exerted through sending of demand letters, personal visits to borrowers, and compromises. Where compromises cannot be reached, legal remedy to satisfy an account is availed of through institution of mortgage foreclosure

proceedings or by filing a collection case in court. The corporation retains the services of one (1) consultant and some external counsels in the recovery of big and problematic accounts. Loan receivables of banks under PDIC R&L as of December 31, 1994, excluding five (5) banks in Capiz, consist of about 216,000 accounts with book value of P3.05 billion.

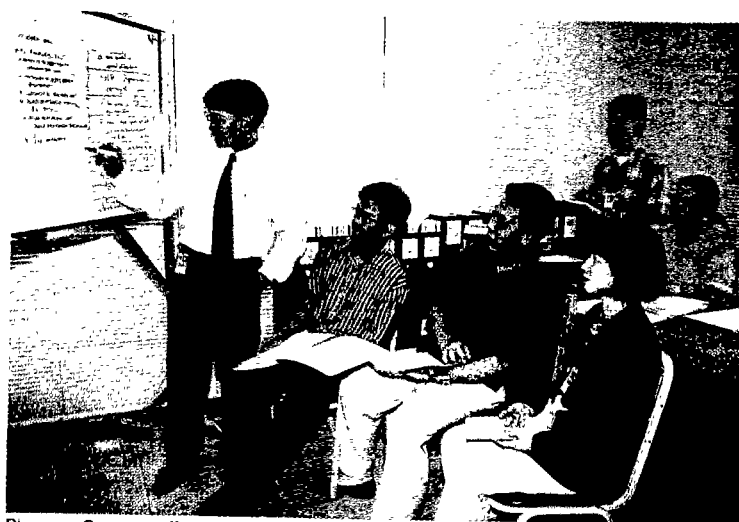
## **Operations Control**

The R&L Operations Control Office (R&L OCO) periodically monitors compliance of different R&L centers and offices with policies to ensure that assets and records of closed banks are preserved properly and the best value of assets is obtained in the liquidation. This is accomplished through spot checks, detailed audits, reconcilements of deposit balances maintained by closed banks with depository banks, and reviews of the appraised values of properties for disposal and collaterals for foreclosure which were set by in-house and external appraisers. In conducting audits and reviews, R&L OCO also determines effectiveness of policies vis-a-vis objectives of R&L and accordingly recommends revision.

During the year, R&L OCO conducted spot checks in thirty one (31) closed banks, performed detailed audit of four (4) banks, and reconciled deposit account balances of eighteen (18) banks of which one (1) was a commercial bank with five (5) branches. Further, R&L OCO reviewed appraised values of 785 real properties for disposal and collaterals for foreclosure.

# CORPORATE DIRECTION AND CONTROL

To set the direction for the corporation and ensure the attainment of its objectives, the Corporate Direction and Control Sector undertakes overall monitoring for continuous review and feedback for necessary adjustments. It performs both planning as well as internal monitoring and control functions, including adoption of advanced information technology.



Planning Center staff consolidate results of the Corporation's annual planning workshop.

## Strategic and Operations Planning

A new mechanism for strategic and operations planning was set up during the year. Various workshops on the review of the corporate mandate, analysis of stakeholders, and assessment of strengths, weaknesses, opportunities and threats were conducted to identify the goals of the corporation on a five-year framework within which the three-year plans were drawn up. These three-year plans were subsequently refined to a one-year operational plan which identifies the priorities of the corporation for 1995. The rigorous corporate planning process involved top management down to the officers and staff at the department levels. The corporate planning activities enabled the different offices to define their goals, generate commitment for responsibilities, and allocate resources to achieve these goals. As a result, the participants agreed on a common direction and set specific plans and targets for the fulfillment of its mandate.

## Monitoring of Key Performance

PDIC has developed a monitoring system in the form of a monthly report on Key Performance Indicators (KPI) which keeps track of corporate performance on

claims settlement, receivership and liquidation, insurance and examination, bank strengthening, and corporate services. Reports generated every month by all centers/offices are consolidated and submitted to senior officers to measure the progress of the corporation. The KPI is subjected to a periodic review

with the objective of enhancing it as a mechanism for management decision.

## Information Technology

The corporation has been successively acquiring information technology equipment in anticipation of increasing workload and more complex operations since 1991. PDIC has since maintained an impressive ratio of two (2) employees for every computer. As of year end 1994, the corporation has acquired 202 personal computers and fifty (50) laptops. Since the installation of the network in 1992, eight (8) servers have been made operational. The demand for shared information from users of different settings and locations has continuously increased with the network made available through 133 connections at an average of twelve (12) hours per day, six (6) days a week in 1994.

Computerization efforts have been continuously undertaken to provide the different operating units the flexibility, speed, and accuracy needed for processing voluminous transactions. As of end of the year, nine (9) major systems have been fully developed while eight (8) more are still undergoing development. These systems were installed in the network which efficiently facilitated the relational and analytical requirements of the different centers and offices. Utilization of technology

extended to on-line approval of office procedures and the use of the electronic mail system for daily news updates thereby saving the corporation considerable resources.

During initial stages of computerization, PDIC opted for maximizing in-house capabilities for the systems development of the Insurance and Examination Sector and the Claims, Receivership and Liquidation Sector. An external arrangement with the Technology and Livelihood Resource Center was made for the development of the financial and administrative systems. This combination was deemed to be the most cost effective way of achieving automation objectives. However, technical problems were encountered in both in-house and external systems development projects which set back the computerization goals. As in most maiden computerization endeavors, full implementation of systems developed was hampered by differing orientation between key users and technical personnel as well as frequent changes in the requirements. Thus in 1994, the corporation felt the need to reassess the systems development strategy to ensure the use of development tools that will bridge the gap between users and technical personnel. For 1995, a re-evaluation of the advantages of in-house development versus off-the-shelf software packages shall be undertaken to provide immediate computerization solutions with less technical involvement of the users.

Recognizing the rapid developments in the computer industry as well as increasing computerization requirements, PDIC shall continue to embark on upgrading its technology and as in the past, shall exercise its best judgment for cost effective purchases. The growing preference for electronic transmission of data shall be further intensified with the corporation connecting to the international

network in the near future. Through the Internet, PDIC shall enjoy the benefit of an immediate link to both local and international institutions, thus facilitating quick access to information needed in efficiently carrying out its functions.

## Internal Control

The Management Control Office (MCO) provides internal audit services to ensure the integrity and efficiency of operations in PDIC. It undertakes three (3) basic functions. First, the Operations Quality Review is a comprehensive evaluation of a unit's operations over a given period of time, usually one (1) year. Second, Control Verifications involve periodic surprise audit routines on identified high risk areas. This is intended to spot on a timely basis the signs of deterioration in controls on critical areas like cash, securities, and premises. Third, the Service Quality Review focuses on providing feedback on the turnaround time of related office routines to promote service consciousness among employees. Special audits on current concerns are also undertaken whenever needed. These audit activities strengthened adherence to corporate policies and government regulations, heightened awareness for contractual obligations and improved controls in automated systems.

In the effort to standardize operating activities, operating guidelines were formulated by respective centers. By end of 1994, 92% of the corporate operating guidelines already formed part of the Policy Manual approved by the Board. MCO also liaises with the Commission on Audit on various audit concerns to ensure prompt resolution.

The new internal audit program set up in 1990 continues to be improved and refined to ensure integrity and efficiency of PDIC operations.



Pres. Ernest Leung (center) who heads the Corporate Direction and Control Sector meets with VP for Management Control Office Armando Quillala and VP for Special Services Catherine Bamba

# PUBLIC INFORMATION & SERVICE

## Research Activities

A compilation of selected economic indicators was set up and computerized in 1994 with the objective of supporting the corporation's research activities. This system was initiated on a limited basis with time series information from 1983, updated on a quarterly basis with plans to expand coverage in content and time horizon. Data are sourced from the Statistical Information Center of BSP, National Economic and Development Authority, and the National Statistical Information Center.

Despite limited manpower resources, the corporation was able to undertake a study on savings behavior in the banking system which identified and validated banking convenience as one of the major determinants in the level of savings. In the immediate future, the corporation plans to link up with the academe to undertake researches while the research capability of PDIC is being strengthened.

## Depositors Assistance Bureau

The Depositors Assistance Bureau was established to render service to the public on deposit and deposit insurance related matters. It responds to queries, and when appropriate, coordinates with respective banks and institutions in addressing complaints received.

After a year of operation, the bureau was able to handle and resolve forty one (41) cases classified as follows:

- unserviced withdrawals from distressed banks
- requests related to insurance claims and processing
- automated tellering machine (ATM) account problems
- unexplained service charges and debits, delayed or missing remittances, erroneous account names, and



unauthorized withdrawals

- request for information or opinion on deposit/deposit insurance/claims
- loan accounts with closed banks
- others (request to purchase properties of closed banks, request for PDIC action on a questionable bank loan).

## PDIC Publications

The corporation produced and distributed a series of materials for the information and guidance of the public. The Information Series consisted of: 1) PDIC Profile, 2) Settlement of Claims for Insured Deposits, 3) Rehabilitation of Closed Banks, 4) Practical Guide for Bank Directors, 5) Bank Examination Procedures, 6) Depositors' Protection, 7) Understanding the Deposit Insurance System in the Philippines and PDIC, and 8) PDIC's Guide to Basic Banking for Depositors.

The PDIC Primer, providing general information on PDIC, was updated to include the major amendments to the PDIC Charter. Through the assistance of the Commission on Filipino Languages, the Primer was translated into four (4) widely-spoken dialects: Filipino, Waray, Ilocano, and Cebuano and distributed to thrift and rural banks nationwide.

As part of its effort to provide information on credit schemes, the fourth edition of Financial Schemes Available to the Philippine Countryside was released. This was designed to be a more reader-friendly compilation of credit facilities extended by various lending and financial institutions for agricultural and agrarian programs and small and medium scale industries.

The Intercom, the official newsletter, was published quarterly to update PDIC employees on corporate issues and developments.

# LEGAL SERVICES

The Legal Group has served as the guide of the corporation in the performance of its functions within the framework provided by law, in order to realize its mandate to provide protection to depositors in the banking system, particularly the small depositors. Legal services include response to legal queries, preparation of contracts, litigation and background/special investigation to expedite resolution of depositor claims and maximize recovery from the conduct of receivership and liquidation (R&L) processes for the benefit of all creditors in the most effective and

efficient manner. The group also renders assistance in the formulation and recommendation of policies for the Insurance and Examination Sector, as well as documentation and implementation of financial assistance contracts to open banks under rehabilitation.

## Legal Opinions

For 1994, 182 legal opinions were rendered involving interpretation of existing laws and presidential enactments concerning the operations of the corporation.

Among the more significant issues resolved were on unpaid labor benefits of employees of closed banks and taxes due the government where it was held that their



The Corporation's lawyers undertake research on their cases in the PDIC's legal library.

payment partakes of distribution of bank's assets subject to approval of the Liquidation Court. The only payment which the receiver and liquidator is allowed to make during R&L is restricted to the costs of R&L operations, and the reasonable expenses and fees of the receiver and liquidator approved by the Monetary Board/Liquidation Court.<sup>1</sup>

On a legal question posed whether or not the liquidator may purchase shares of stocks sold through initial public offerings using funds of closed banks, it was opined that the matter is governed by

Section 30 of the New Central Bank Act (RA 7653) which prohibits the deposit/placement of funds of a closed bank under R&L in speculative investments.<sup>2</sup>

Further, the group rendered an opinion that legal set-off as defined in the Civil Code, takes place automatically when a depositor of a closed bank is also a debtor of such bank (i.e. a depositor with an existing loan with the closed bank), such that the deposit is set-off against his outstanding obligation under the loan agreement, provided the following conditions concur: (1) the depositor and closed bank are liable primarily, i.e. as principals; (2) both debts consist of sum of money;

<sup>1</sup> Legal Opinion No. 84, S. 1994

<sup>2</sup> Legal Opinion No. 121, S. 1994

(3) both debts are due and demandable at the time of the closure; and (4) there is no retention nor controversion by third parties, which is communicated in due time to the bank or the depositor.

## Litigation

As of December 1994, PDIC handled 976 cases in various stages of litigation – composed of forty two (42) cases involving PDIC as insurer and 934 involving various closed banks under R&L by PDIC, 570 cases of which were transferred to PDIC after its takeover of the R&L of closed banks from BSP.

Cases against PDIC as insurer were filed by depositors of closed banks whose claims for payment of insured deposits were denied because of highly irregular or questionable circumstances, or because deposits claimed are not recorded in the banks.

Fifty (50) of the aforementioned cases were handled by PDIC lawyers. The remaining cases were either handled by the Office of the Government Corporate Counsel; Department of Justice, through the National Prosecution Service, deputized by the Office of the Solicitor General to handle cases of closed banks within their respective regions; or accredited private lawyers.

Some significant litigation accomplishments during the year, involved: (1) An action by a borrower of a closed bank under liquidation to stop the foreclosure of the mortgage covering nine (9) parcels of land and a rice mill, used as a collateral in a loan agreement, which PDIC successfully defended and sustained in the trial court<sup>3</sup>; (2) A suit involving a borrower's complaint against the bank for damages due to partial loan releases, where the Court of Appeals upheld the position of PDIC asking for cancellation of the award of damages for P12

million against a bank under liquidation<sup>4</sup>; (3) An action by a borrower of a closed bank to forestall the public sale of his foreclosed property which PDIC successfully defended. In the same case, the borrower also sought to compel PDIC to grant him the right to repurchase said property at an amount lower than its current and appraised value, which was also denied by the trial court.<sup>5</sup>

The corporation adopted cost-cutting measures by dispensing with hiring of private lawyers in extrajudicial foreclosures of real estate mortgage, which would otherwise entail payment of attorneys' fees equivalent to 10% of the winning bid in the foreclosure sale of mortgage. In 1994, four (4) extrajudicial foreclosures were handled by PDIC lawyers, covering a total of P2.2 million winning bid.

## Investigation

A total of 122 cases relating to background and/or credit investigation of stockholders, officers, bank rehabilitators, job applicants and suppliers of PDIC, as well as whereabouts and property checkings, verification of court cases and other anomalous bank transactions were referred to the Center last year. These were inclusive of the ten (10) cases which remained outstanding as of December 1993. One hundred six cases were disposed of/terminated, while six (6) cases remained outstanding as of year-end.

<sup>3</sup> Alcantara v. PaBC Civil Case No. 1388

<sup>4</sup> Rafnil Inc. v. Pisobank, CA GR No. 33452

<sup>5</sup> Ragas v. PDIC (DBR), Civil Case No. 93-2894



# CORPORATE SERVICES

The Corporate Services Sector focuses mainly on providing internal support services to the corporation. Traditionally, it handles general accounting, cashiering, budgeting, funds management, recruitment, training, personnel management, property and procurement, office services and security functions. It also

undertakes non-traditional services such as investment and monitoring of funds of banks under receivership and liquidation, as well as settlement of claims, collection of insurance premium of banks, and employee welfare services.

## Human Resources

The human resource programs of PDIC continue to address the maintenance of high professional standards for its people. The recruitment process follows rigid screening and evaluation. Applicants undergo written examinations and at least three (3) interviews before applications are reviewed by the Selection Board which recommends approval of appointment. Applications for officer positions go through a three-day special evaluation procedure using simulated managerial situations. Sourcing of applicants is not confined to newspaper advertisements, but also through coordination with campus officials and students, visits to review schools, and networking with other government agencies.



SVP Nieveleena Rosete of Corporate Services (center) in a working session with VP for Finance Ma. Elena Bienvenida (left) and VP for Human Resource and Internal Services Management Eleanor Lopez (right).

Appointments to PDIC positions used to require attestation by the Civil Service Commission (CSC). In 1994, CSC accredited PDIC to render final action on appointments. The new authority facilitated actions on recruitment, promotions and other personnel movements. Human resource development in PDIC

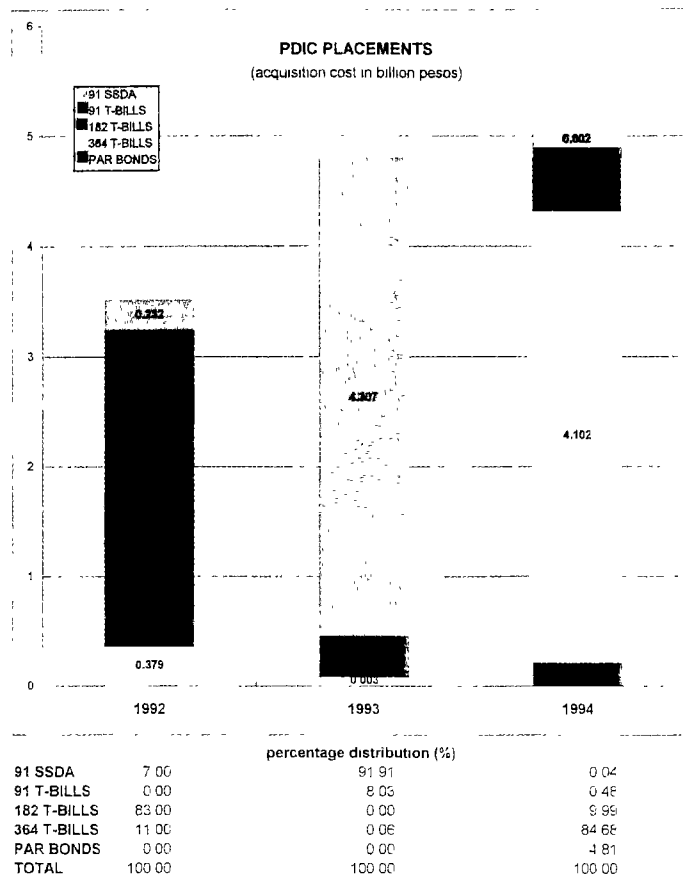
consists of two broad streams: the internal programs designed to upgrade the skills of participants along functional areas of PDIC; and the external programs which are either degree courses in universities or short courses on technical topics relevant to PDIC operations. A review of in-house programs was conducted to check the feasibility of contracting the services of other training institutions. As a result, the Ateneo de Manila Graduate School of Business was contracted to run the Basic Banking Operations Course and Bank Accounting Course. The review also resulted in the conduct of Business Writing Course within the context of PDIC reporting requirements. Meanwhile, 385 out of a total of 525 employees were sent to selected courses offered by external institutions. For both internal and external development programs, the skills and knowledge gained not only prepared them for upward mobility, but also equipped them with a deeper sense of professionalism.

Recognizing the value of staff involvement in corporate affairs, regular dialogues with PDIC employees union were pursued. These proved to be an effective way

to better appreciate management policies and decisions, as well as participate in corporate plans and programs.

Activities to further reinforce employee morale and well-being were undertaken. A corporate sportsfest was conducted and participated in by all employees fostering camaraderie and sportsmanship among staff and officers. This was supplemented by other activities such as aerobics sessions and dance exercises after office hours. A lecture series on health and prevention of illnesses were conducted by medical doctors. Film showings for education and relaxation purposes were also provided.

Human resource management was still difficult in spite of all the efforts of PDIC because of the limitations posed by the Salary Standardization Law and Attrition Law, compounded by stringent qualification standards. These constricting conditions pose a problem to public corporations such as PDIC, which has to source its



manpower from a highly competitive sector. The Salary Standardization Law has also set an unrealistic limit in remuneration resulting to large migration of highly qualified manpower to the private sector.

### Funds and Investment Management

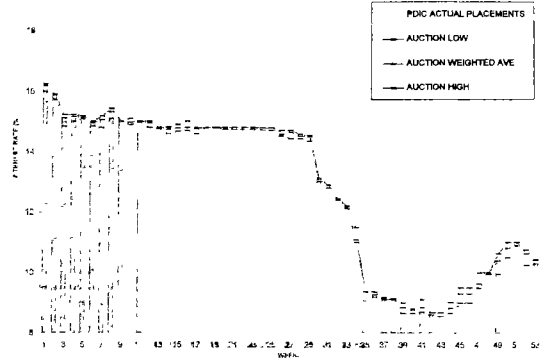
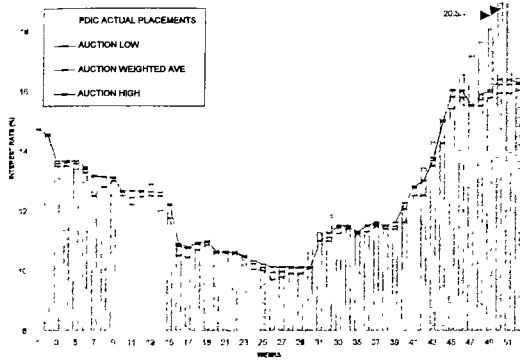
As a government corporation, the investment options of PDIC are limited. This arises from the charter of the corporation which limits its authority to invest only in government securities. Further, there are also other government regulations requiring financial transactions of PDIC to be made only with government institutions. Nevertheless, PDIC was able to maximize returns within the scope of these limitations.

Prior to 1994, the focus of investment was on short-term instruments in order to meet liquidity requirements that may come from potential claims in case of

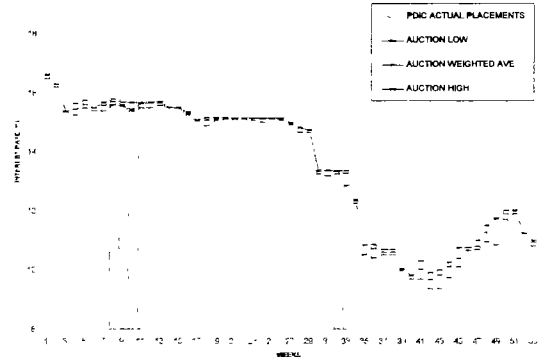
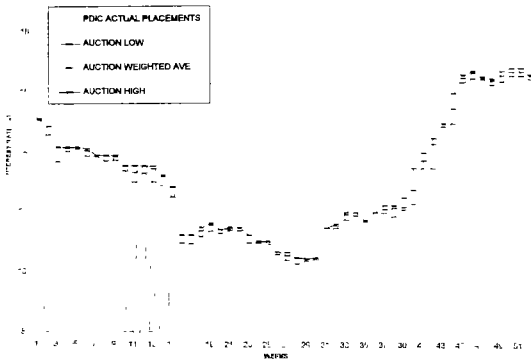
# YIELDS ON GOVERNMENT SECURITIES

1993

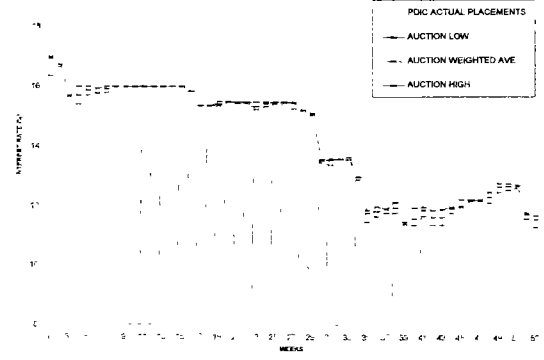
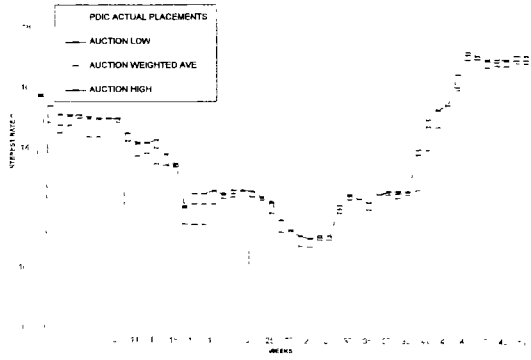
1994



91 days T-Bills



182 days T-Bills



364 days T-Bills

any bank failure. Sensitive to the opportunity losses in foregoing investments on longer-term maturities, a review of liquidity requirements was undertaken, including the evaluation of alternative ways to meet any sudden need for PDIC resources. Based on this review, the corporation shifted investments to long-term ones with full confidence of still meeting fluctuations in cash requirements.

This change in strategy is amplified in the graphs showing PDIC placements in 91-, 182- and 364-day Treasury Bills. The investments in 1993 were concentrated on the 91-day placements with 9.6% yield, whereas, in 1994, the bulk of investments were in 364-day placements resulting to 12.7% yield or a 301 basis points increase in return on investments.

The chart on short bill instruments in 1993 shows actual yields higher than the market. This is traced to the heavy bid rejections during that period in order to keep interest rates down. Since bids were rejected, government had to withdraw its deposits from government financial institutions (GFIs) to pay for the maturing Treasury Bills. This resulted in the tightening of the market. To cover liquidity requirements due to withdrawals of national government, GFIs increased their interest rates on special savings deposits. PDIC used this opportunity for higher yields by temporarily diverting from traditional Treasury Bills into special savings deposits.

With the continued strengthening of the peso during the year, PDIC purchased dollars as currency hedge for insured dollar deposits in case of bank failure. In the past, the corporation had to purchase dollars to service

deposit claims in dollar deposits of closed banks. By end of 1993, the balance of dollar holdings amounted to \$5.2 million. With purchases in 1994, dollar holdings increased to \$8.2 million by year end.

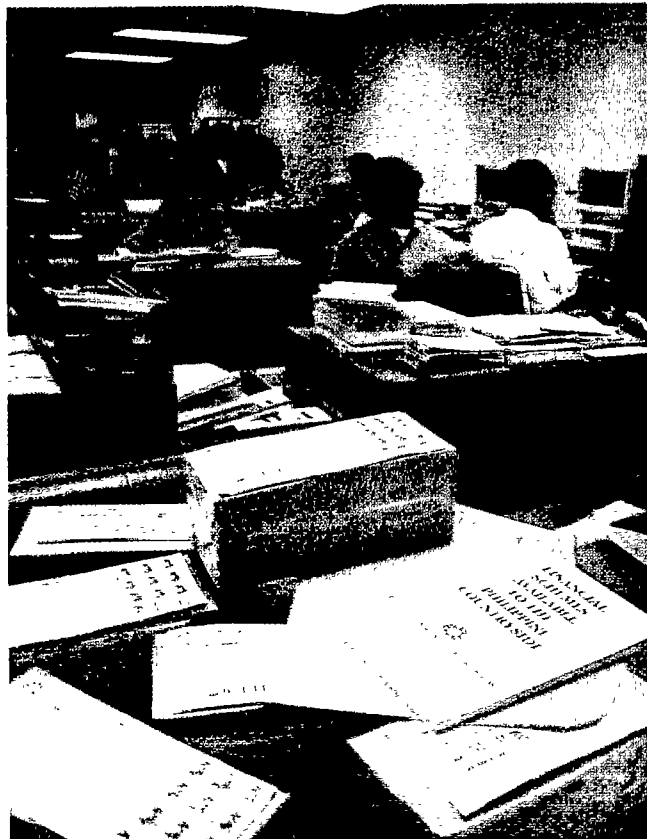
Given the low returns in dollar time deposits, PDIC invested in Philippine debt instruments traded in international market. With generous discounts of around 40%, purchases of Brady Par Bonds were made. Par Bonds have current yields ranging from 9.2% to 9.4% compared to the 6% to 6.5% of dollar time deposits. If held to maturity of twenty three (23) years, yields of Par Bonds will reach as high as 11%.

In 1994, the BSP approved participation of the corporation in the Book Entry System for trading in government securities. This is a system of recording transfers of ownership of government securities through ledger entries that allows purchases without requiring physical delivery. This, therefore, eliminated the risks and costs of handling and transporting securities.

As liquidator, PDIC has the basic responsibility to recover assets of closed banks for final distribution to creditors. Pending distribution, resources recovered are invested to maximize yields and values. Since these are resources of closed banks and not of PDIC, such investments are not subject to limitations on investment of government funds. Nevertheless, these are invested with the same prudence in administration of PDIC resources. Consequently, investments are confined to government securities with advantage of purchasing from accredited private banks offering higher rates on securities. To ensure that proper custodianship is maintained, PDIC requires physical delivery of securities.

## Financial Reporting Systems

As part of its continuing drive to improve financial management, several systems were further enhanced. The Departmental Expense Reporting System was computerized to generate ready information on budget utilization by centers. This resulted to a more effective monitoring and control of corporate expenses. The Payroll System was upgraded to facilitate production of reports for submission to government agencies like BIR and GSIS. The system modification helped in eliminating backlogs in the submissions of these reports. The Funds Monitoring System on investments and expenses of various banks under receivership was expanded to include a procedure for tracking dollar denominated investments and other related information. This has facilitated reporting on the various accounts held as well as in the decision making on these resources held in trust.



Internal Services Management Center processes Corporate mails

## Administrative Services

A Cost Effectiveness Program was formalized in 1994 to ensure the best price of goods and services procured. This optimized the resources of PDIC. To strengthen the price canvassing and bidding process in procurement, spot verifications on prices of items due for purchase were also made from third party suppliers.

Contracts for goods and services were extensively reviewed and compared to broader market standards as a way of ensuring maximum benefit for PDIC. The process may

have taken time in some cases, but the resulting contracts generated significant savings while maintaining quality goods and services for the corporation.

PDIC sticks to high standards for the maintenance of its premises. This ensures that the environment is conducive to work for its people. At the same time, strict rules on cleanliness and proper maintenance have kept PDIC premises worthy of its continuing commitment to service. In 1994, efforts were also made to review the allocation of office spaces to the different centers/offices. This resulted to further rationalization of the use of limited space of the corporation.

## FACING THE CHALLENGES

The stage for greater competition is set in every sector of the economy. The global thrust of liberalization and deregulation of the current administration has opened the Philippine economy to windows of opportunities and technological advancements. The banking sector in particular, had to adjust to these changes and to a certain extent, had to absorb the pressures of current trends. Factors such as product innovations, sophistication in technology, and market positioning have dictated the competitive advantage of banks.

In this period of momentous change, PDIC shall pursue a strategic alliance with banks aimed at continuously strengthening the banking system. Towards this end, PDIC shall continue to conduct its regular examination and supervisory functions to nurture sound banking discipline. Banks shall continue to be required to submit promptly and accurately their reports. This in turn, shall allow PDIC to feedback timely and meaningful information for analyzing industry opportunities and risks. To facilitate the process, PDIC shall continue to take advantage of advances in information technology and in the near future, explore the possibility of establishing an information network among banks. Further, a more efficient information exchange with BSP shall be pursued to rationalize reportorial requirements from banks.

To the depositors, PDIC shall continue to be their zealous guardian. The confidence of depositors in the banking system has to be sustained as the financial system expands with innovative yet at times, riskier saving instruments. In this regard, PDIC shall endeavor to educate depositors on the banking system to guard them against unsafe and unsound banking practices. This is based on the premise that the most potent form of protection is an informed depositor.

Full effort shall be exerted to hasten payment of insured deposits of closed banks. Prompt takeover of banks ordered closed by the Monetary Board along with swift but careful claims settlement procedures shall continue to be an imperative. Further, closer correspondence between PDIC and deposit claimants shall be fostered to further expedite claims

payment.

A more efficient and cost-effective receivership and liquidation process shall be pursued in order to hasten the payment of creditors and stockholders of closed banks. As a paramount objective, the corporation has committed to continually formulate strategies to speed up the disposal of assets of closed banks. Alternatives like hiring of external agencies to administer the liquidation of assets are now being considered.

Encompassing these goals is the aim of PDIC to be an active participant in the nation's quest towards sustained economic growth. The corporation intends to concretize this through savings mobilization. To meet the demands of a growing economy, the objective to increase the country's level of savings becomes indispensable. Hence, PDIC shall endeavor to tap depositor interest, especially in the countryside, through extensive information dissemination. Programs and public information campaigns on the importance of savings shall be envisioned to induce the citizenry to save.

To realize its goals, PDIC shall continue to build on solid foundations in terms of financial strength and competent workforce. The corporation shall continue to cautiously invest its resources in high yielding instruments to increase reserves and prepare for any eventuality. Prudence shall likewise continue to be exercised in the corporation's operational expenses. Manpower development, with emphasis on technical skills build-up, shall further be administered to be at par with industry needs. A rationalized compensation structure shall be pursued to attract professional and qualified manpower while keeping its highly trained personnel.

The economic outlook is impressive, the banks are highly competitive, but the bridge towards economic take-off is yet to be fully crossed. We at PDIC are set to face the challenges of such a dynamic environment.

# FINANCIAL HIGHLIGHTS

The year 1994 was marked by improved financial performance arising from significant increase in collections of assessment premiums and better yields in investments.

Total operating income for 1994 amounted to P2,005.2 million, 26.7% higher than last year's revenues of P1,582.5 million. This was brought about by the 26.4% increase in assessment income from P1,000.5 million in 1993 to P1,264.8 million in 1994, and 27.4% increase in financial income from P578.9 million in 1993 to P737.7 million in 1994.

The assessment income pertains to premiums collected from member banks at the rate of one-fifth (1/5) of one percent (1%) of total deposit liabilities. The increase in assessment income for the year was brought about by a 25% increase in total deposit liabilities from P638.15 billion in 1993 to P797.9 billion in 1994.

The financial income of the corporation was derived from investments and interest on financial assistance to banks. During the year, the total income derived from investments amounted to P629.3 million, 37.6% higher than last year's income of P457.4 million. Total investments amounting to P5,014.1 million as of year-end had a yield of 12.5% net of tax, 31.6% higher compared to 9.5% realized last year. Interest income on notes receivable from banks on account of financial assistance granted, amounted to P108.4 million, 10.8% lower than last year's amount of P121.5 million. The decline was attributed to prepayment of loans at higher rates amounting to P333.98 million even as the corporation released additional P825 million financial assistance at lower interest rates to a commercial bank during the third quarter. Other operating income decreased by 12.6% from P3.1 million in 1993 to P2.7 million in 1994.

Total operating expenses for the year amounted to P1,995.1 million, 26.8% higher than last year's expenses of P1,573.6 million. This increase was attributed to 45.9% increase in provision for insurance losses, 12% increase in administrative expenses, 51.8% decrease in interest expense.

Provision for insurance losses amounted to P1,735.9 million and accounted for 87% of total expenses. Like in

previous years, a large part of net income continued to be set aside for provision for insurance losses. This practice has been adopted to augment the capital of PDIC in order to generate adequate resources deemed necessary to cover insured deposit claims that may arise from bank closures. In this regard, this year's provisions for insurance losses added to previous years' cumulative balance amounted to P3,786.3 million at year end.

Administrative expenses and other operating expenses amounted to P129.9 million and accounted for 6.5% of total expenses. The increase was due to increase in personal services from P58.2 million in 1993 to P71.8 million in 1994.

Interest on borrowings from BSP amounted to P129.3 million and accounted for the remaining 6.5% of total expenses. This was 51.8% lower compared to last year's interest expense of P268.4 million. The substantial decline on interest expense on notes payable to BSP was brought about by the restructuring of the notes at reduced rates of interest from 13.6% to 8.5% effective July 3, 1993.

Net income for the year amounted to P10.1 million, 14.3% higher than last year's net income of P8.8 million, allowing the corporation to set aside P5 million and remit dividends to the National Treasury.

Total assets as of December 31, 1994 amounted to P8,821.1 million, 14.8% higher than last year's total of P7,686.9 million. Total current assets amounted to P5,545.4 million, 12.9% higher than 1993 balance of P4,909.8 million. The investment portfolio of the corporation amounted to P5,014.1 million, 4.2% higher than last year's amount of P4,814.3 million and accounted for 90.4% of total current assets. This included time deposits (P110.1 million), special savings deposits (P1.5 million), and investments in government securities such as treasury bills (P4.8 billion) and Philippine Collateralized Interest Reduction Bonds or Brady bonds (P102.9 million). Cash on hand and in banks was .08% of total current assets and amounted to P4.5 million, of which P2.4 million was earmarked for

current claims for payment of insured deposits. Accrued interest receivable on investments amounted to P431 million and accounted for 7.8% of current assets. Accrued interest on notes receivable of P32.7 million accounted for 0.6% and other current accounts of P63 million for the remaining 1.1%.

Financial assistance granted to member banks as of year-end amounted to P1,731.4 million, 39.7% higher than last year's balance of P1,239.4 million.

As of end of year, the net subrogated claims paid amounted to P1,296.5 million, 1.1% lower than last year's balance of P1,311.3 million. Over the years, total insured deposits paid amounted to P3,174 million of which P160 million were partially recovered from closed banks. Of this adjusted subrogated claims paid amounting to P3,014.4 million, 50% or P1,507.2 million was provided for insurance losses. Subrogated claims amounting to P210.7 million were exchanged with BSP for accounts receivable from rural banks availing of loans under the CFI Enhancement Program.

Property and equipment, net of depreciation amounted to P178.7 million, 7.1% lower than last year's balance of P192.4 million. The land and building located at 229 Salcedo Street, Makati amounting to P2.2 million were reclassified under other assets as these properties were no longer used in the operations of PDIC.

Other assets increased from P33.96 million in 1993 to P69.1 million in 1994 due to reclassification of accounts.

Total liabilities as of December 31, 1994 amounted to P5,656.7 million, 2.1% higher than last year's amount of P5,538.6 million. There were, however, significant changes in the components of the liabilities as compared to last year. The estimated insurance losses increased by 83.2% from P2,066.4 million in 1993 to P3,786.2 million in 1994. This increase was brought about by the provision for insurance losses of P1,735.9 million less provision for losses on subrogated claims for the year amounting to P16.2 million.

The above increase was set off by a drop in long term

liabilities of 39.8% from P2,525 million to P1,521 million arising from the restructuring of PDIC's obligations due to the Central Bank. Of the total P2,525 million loan, P1,521 million was transferred to the new Central Bank (BSP) and the balance of P1,004 million was retained with the old Central Bank (CB - Board of Liquidators). As part of the conditions for restructuring, accrued interest up to July 2, 1993 on the total loan in the amount of P737.1 million was paid to BSP. Current liabilities decreased by 65% from P925.3 million to P323.5 million.

Towards the end of 1994, the Deposit Insurance Fund amounted to P3,163.3 million. This was 47.3% higher than last year's balance of P2,147.2 million. The Permanent Insurance Fund reached P3 billion with the conversion of P977.8 million of PDIC's obligation to CB - Board of Liquidators into national government's equity to the corporation. Retained earnings as of year-end amounted to P163.3 million for an increase of 30.6% from last year's balance of P125.04 million. This increase was attributed to net income for the year amounting to P10.1 million plus prior period adjustments amounting to P32.6 million less dividends paid to the national government amounting to P4.4 million.

Contingent surplus amounting to P1.1 million pertained to disallowances by COA on payments made by claim agents for insured deposits, travel expenses of some employees from January to May 1985 and discretionary expenses of certain officers.



## FINANCIAL PERFORMANCE HIGHLIGHTS

(Amount in million pesos)

	1993	1994	Growth Rate (in %)
<b>Total Operating Income</b>	1,582.5	2,005.2	26.7
Assessment Income	1,000.5	1,264.8	26.4
Financial Income	578.9	737.7	27.4
Other Operating Income	3.1	2.7	(12.6)
<b>Total Operating Expenses</b>	1,573.6	1,995.1	26.8
Administrative Expenses	115.7	129.9	12.2
Provision for Insurance Losses	1,189.5	1,735.9	45.9
Interest on Borrowings from BSP	268.4	129.3	(51.8)
<b>Net Income</b>	8.8	10.1	14.3
<b>Total Assets</b>	7,686.9	8,821.1	14.8
<b>Total Liabilities</b>	5,538.6	5,656.7	2.1
<b>Deposit Insurance Fund</b>	2,147.2	3,163.3	47.3
Permanent Insurance Fund	2,022.2	3,000.0	48.4
Accumulated Net Income	125.0	163.3	30.6
<b>Estimated Insurance Losses</b>	2,066.5	3,786.2	83.2

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

**STATEMENT OF CONDITION**  
As of December 31, 1994  
(With Comparative Figures for CY 1993)

ASSETS	1993	1994	Growth Rate (in %)
Current			
Cash on Hand and In Banks (Note 2)	2,750,455	4,515,461	64.2
Investments (Note 3)	4,814,302,514	5,014,125,887	4.2
Accrued Interest on PGO	11,772,013	431,040,491	3,561.6
Accrued Interest on Notes Receivable	60,093,239	32,718,845	(45.6)
Other current assets (Note 4)	20,903,941	62,981,339	201.3
<b>Total Current Assets</b>	<b>4,909,822,162</b>	<b>5,545,382,023</b>	<b>12.9</b>
Financial Assistance (Note 5)	1,239,374,049	1,731,373,484	39.7
Subrogated Claims Paid-net (Note 6)	1,311,300,915	1,296,504,292	(1.1)
<b>Total</b>	<b>2,550,674,964</b>	<b>3,027,877,776</b>	<b>18.7</b>
Property & Equipment-net(Note 7)	192,426,658	178,739,705	(7.1)
Others Assets (Note 8)	33,963,589	69,083,089	103.4
<b>TOTAL ASSETS</b>	<b>7,686,887,373</b>	<b>8,821,082,593</b>	<b>14.8</b>
<b>LIABILITIES</b>			
Current Liabilities (Note 9)	925,344,459	323,506,244	(65.0)
Long Term Liabilities (Note 10)	2,525,000,000	1,521,000,000	(39.8)
Estimated Insurance Losses (Note 11)	2,066,458,931	3,786,206,345	83.2
Other Liabilities	21,785,689	25,969,470	19.2
<b>TOTAL LIABILITIES</b>	<b>5,538,589,079</b>	<b>5,656,682,059</b>	<b>2.1</b>
<b>DEPOSIT INSURANCE FUND</b>			
Permanent Insurance Fund	2,022,212,500	3,000,000,000	48.4
Accumulated Net Income	125,036,775	163,329,020	30.6
<b>TOTAL DEPOSIT INSURANCE FUND</b>	<b>2,147,249,275</b>	<b>3,163,329,020</b>	<b>47.3</b>
CONTINGENT SURPLUS	1,049,017	1,071,515	2.1
<b>TOTAL LIABILITIES, DEPOSIT INSURANCE FUND AND CONTINGENT SURPLUS</b>	<b>7,686,887,371</b>	<b>8,821,082,594</b>	<b>14.8</b>

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

**STATEMENT OF INCOME AND RETAINED EARNINGS**

For the year ended December 31, 1994  
(With Comparative Figures for CY 1993)

	1993	1994	Growth Rate (in %)
<b>OPERATING INCOME</b>			
Assessment Income (Note 13)	1,000,456,268	1,264,846,474	26.4
Financial Income: (Note 14)			
Income from Investments	457,378,969	629,262,396	37.6
Interest on Notes Receivable	121,544,981	108,418,273	(10.8)
Other Operating Income (Note 15)	3,079,339	2,690,093	(12.6)
<b>Total Operating Income</b>	<b>1,582,459,558</b>	<b>2,005,217,237</b>	<b>26.7</b>
<b>OPERATING EXPENSES</b>			
Provision for Insurance Losses*	1,189,536,000	1,735,937,914	45.9
Interest Expense on Notes Payable to BSP	268,351,507	129,285,000	(51.8)
Administrative Expenses* (Note 16)	103,046,856	119,756,567	12.2
Other Operating Expenses (Note 17)	12,696,035	10,149,329	
<b>Total Operating Expenses</b>	<b>1,573,630,398</b>	<b>1,995,128,810</b>	<b>26.8</b>
Net Income	8,829,160	10,088,427	14.3
Retained Earnings, January 1	136,783,325	125,036,775	(8.6)
Prior Period Adjustments	(20,575,709)	32,618,397	
Dividends Paid	0	(4,414,580)	
<b>Retained Earnings, December 31</b>	<b>125,036,775</b>	<b>163,329,020</b>	<b>30.6</b>

\* Note. An adjustment in the amount of P3.06 million for realty taxes pertaining to 1994 was made. An adjustment to the provision for insurance losses for the same amount was also made.

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

**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 1994  
(With Comparative Figures for CY 1993)

	1993	1994
Cash Flows from Operating Activities		
Collection of assessment premiums	1,001,718,423	1,264,273,682
Advances to closed banks	-	(791,109)
Collection of various accounts receivables	-	1,307,957
Advances to officers and employees	-	(53,949)
Payment of various accounts payables	-	(2,511,053)
Payment of insured deposits	(39,997,666)	(32,451,026)
Purchase of supplies and materials	(3,955,239)	(1,843,592)
Payment of tax expense on PGO	(76,713,702)	(162,669,385)
Deposit with other companies	(103,000)	(9,675)
Purchase of documentary stamps/decals & standees	(412,496)	(149,851)
Payment of interest on CB notes	(305,285,302)	(737,128,487)
Cash advance	-	(5,465,265)
Personal services	(54,893,457)	(43,982,711)
Operating and maintenance expenses	(17,937,291)	(21,355,302)
Payment of various accounts to officers and employees	-	(258,211)
Payment of retirement benefits	-	(548,665)
Gain on sale of investment	4,549,730	-
Gain on foreign exchange conversion	14,481,286	-
Reimbursement of expenses from World Bank	6,664,541	-
Earned discount	93,925,940	-
Prepaid expenses	(1,937,968)	-
Purchase of documentary, postage stamps,decals, etc.	613,977	50,599
Remittances to GSIS,BIR,HDMF and PF	(1,886,054)	(20,683,114)
Interest earned and penalty charges	400,656	78,663
Miscellaneous income	227,891	552,169
Interest earned on special savings/savings deposit	25,549,035	217,954,784
Income earned on PGO	484,717,635	154,197,028
Interest earned on time deposits	4,901,226	6,281,784
Interest earned on notes receivable	121,707,724	81,719,334
Payment by Philbanking	39,886,425	-
<b>Total</b>	<b>1,296,222,314</b>	<b>696,514,605</b>

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

**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 1994  
(With Comparative Figures for CY 1993)

	1993	1994
Cash Flows from Investing Activities		
Proceeds from matured investments	15,208,596,381	3,904,360,986
Placements in Philippine government obligations	(12,341,769,992)	(8,406,203,293)
Financial assistance (notes receivables)	(5,000,000)	(825,000,000)
Collection of notes receivables	-	333,987,488
Purchase of various equipment, furniture and fixtures and building	(48,083,496)	(7,484,814)
Loan repayments (financial assistance)	166,620,402	-
Loans receivable from provident fund	(5,000,000)	-
Total	2,975,363,295	(5,000,339,633)
Cash Flows from Financing Activities		
Payment to CB-BOL	(225,000,000)	(25,212,500)
Payment of dividend to the National Government	48,725,000	(4,414,580)
Total	(176,275,000)	(29,627,080)
Effect of exchange rate changes on cash		(3,485,060)
Net increase (decrease in cash and cash equivalent)	4,095,310,609	(4,336,937,168)
Cash and Cash Equivalent at Beginning of the Year	357,722,327	4,453,032,936
Cash and Cash Equivalent at End of the Year	4,453,032,936	116,095,768

**RECONCILIATION OF NET INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

	1993	1994
Net Income	31,357,494	10,088,427
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	13,760,775	15,916,666
Provision for insurance losses	1,189,536,000	1,735,937,914
Provision for uncollectible accounts	12,696,035	6,664,231
Provision for retirement	5,000,000	4,451,336
Gain from foreign currency transactions	-	3,485,097
Gain on sale of investments	-	(565,352)
Increase in due from officers and employees	212,206	(19,333)
Decrease in accounts receivable	3,319,664	4,590,253
Decrease (increase) in cash advance	(9,691)	19,667
Decrease (increase) in accrued income receivable	108,979,242	(418,562,252)
Decrease (increase) in accrued interest receivable	(56,302,250)	29,891,275
Increase in inventory of supplies and materials	(57,359)	(147,063)
Decrease (increase) in prepaid expense	14,248,520	(46,520,923)
Increase in subrogated claims paid	(40,325,131)	(32,380,801)
Decrease in AR - receivership	(14,832,801)	(9,520,330)
Decrease in inventory of decals and standees	-	23,964
Increase in deposit with other companies	-	(9,675)
Increase in inventory of documentary stamps	-	(7,176)
Increase in inventory of postage stamps	-	(11,239)
Increase in accounts payable	68,150,030	2,323,376
Increase (decrease) in due to officers and employees	1,805,575	(1,022,375)
Decrease in accrued interest payable - BSP	(21,352,485)	(607,843,487)
Increase (decrease) in deferred assessment premiums	481,741	(267,555)
Increase in contingent assets	21,122	-
Decrease in contingent surplus	(21,393)	-
Decrease in other assets	213,556	-
Decrease in accounts payable PNB	(82,827)	-
Accumulated net income adjustments	(20,575,709)	-
Total	1,264,864,820	686,426,178
Cash provided by Operating Activities	1,296,222,314	696,514,605

# NOTES TO FINANCIAL STATEMENTS

## I. Summary of Significant Accounting Policies

### a) Valuation of Investments

Investments in Treasury Bills and Philippine Government Bonds are recorded at cost. Income from these investments are accrued and recorded monthly over the term of the investment. Final taxes are paid upon placement and are booked as Prepaid Taxes and amortized monthly over the term of investment.

### b) Allowance for Losses on Subrogated Claims

In order to present Subrogated Claims Paid at its net realizable value, valuation reserves are periodically provided. For this purpose, the account Allowance for Losses on Subrogated Claims Paid is used. The determination of the level of these valuation reserves is based on historical data available regarding the recoveries of the corporation from closed banks. Presently, the PDIC Board of Directors has pegged this at 50% of the Subrogated Claims Paid balance. Increase or decrease in this account is closed to the Estimated Insurance Losses account.

### c) Estimated Insurance Losses

This account is used to estimate the liabilities of PDIC for the payment of depositors' claims in banks expected to close in the short term to the extent that PDIC cannot recover from the banks' existing assets. Upon periodic review of its insurance risk, the corporation estimates on the basis of historical experience the insurance losses from the expected closure by BSP of some distressed banks. The account is also referred to as Reserve for Insurance Losses.

### d) Allowance for Uncollectible Accounts

Effective 1993, the PDIC Board of Directors determined that the amount of the provision for uncollectible accounts, to reflect total Accounts Receivable - Receivership at its net realizable value, should be at 70% of its balance.

### e) Depreciation of Property and Equipment

Property and equipment are carried in the books at acquisition cost. Provision for depreciation is computed based on the straight-line method. Depreciation cost is allocated over the estimated useful lives of the depreciable assets as follows:

Furniture and Fixtures	5 - 10 years
Equipment/Vehicles	5 - 10 years
Computers	3 years
Building	25 years

Expenditures for ordinary maintenance and repairs are charged to expense as incurred.

## 2. Cash on Hand and in Banks

This account includes the following:

Cash in Bank	P2,016,966
Cash in Bank - Settlement of Claims	2,444,827
Cash on Hand and Petty Cash Fund	42,922
Due from BSP	<u>10,746</u>
Total	<u>P4,515,461</u>

## 3. Investments

This account includes the following investments:

Treasury Bills	P4,799,650,452
Philippine Gov't Bonds	102,895,128
Dollar Time Deposit	110,060,307
Special Savings Deposit	<u>1,520,000</u>
Total	<u>P5,014,125,887</u>

## 4. Other Current Assets

This account includes the following:

Prepaid Taxes	P47,181,736
Accounts Receivable - Contested Assessment Billings	<u>14,206,736</u>
Inventory of Supplies & Materials	721,913
Prepaid Insurance	226,569
Others	<u>644,494</u>
Total	<u>P62,981,339</u>

## 5. Financial Assistance

This account includes the following:

Notes Receivable:	
Insular Savings Bank	P 304,000,000
Banco de Oro	11,877,187
Philippine Veterans Bank	79,804,029
Rural Banks (CFI Enhance Program)	210,692,268
	<u>P1,506,373,484</u>
Purchase of Assets	
Westmont Bank	1,125,000,000
Total	<u><u>P1,731,373,484</u></u>

## 6. Subrogated Claims Paid

Payments to depositors of closed banks on account of their insured deposits are charged to the Subrogated Claims paid account. On the other hand, the Subrogated Claims Paid Assigned account represents the amount of subrogated claims which are assigned to BSP in exchange for notes receivable from the borrower banks under the CFI Enhance Program participated in by PDIC, LBP and BSP.

Total Subrogated Claims Paid	P3,173,885,758
Less: Recoveries	<u>159,492,638</u>
Adjusted Subrogated Claims Paid	P3,014,393,120
Less: Assigned to BSP	( 210,692,268)
Allowance for Losses	<u>( 1,507,196,560)</u>
Subrogated Claims Paid - Net	<u><u>P1,296,504,292</u></u>

## 7. Property and Equipment (Net)

This account includes the following:

	Cost	Accumulated Depreciation	Net
Land	P 26,206,018	-	P 26,206,018
Building	146,115,894	7,914,875	138,201,019
Furniture & Fixtures	3,779,503	1,469,261	2,310,242
Equipment	45,251,115	33,228,689	12,022,426
Total	<u><u>P221,352,530</u></u>	<u><u>P42,612,825</u></u>	<u><u>P178,739,705</u></u>

## 8. Other Assets

This account includes the following:

Accounts Receivable:	
Mindanao Savings & Loan Association (Net of Allowance for Doubtful Accounts of P127,537,534)	P30,000,000
Provident Fund	24,723,760
Receivership (Net of Allowance of P21,991,068)	9,424,744
Land and Building not used in operations located at 229 Salcedo St., Makati net of Accumulated Depreciation of P3,858,001	2,236,777
Subscribers' Investments/Deposits	1,537,939
Inventory of decals and standees, postage and documentary stamps	88,354
Contingent Accounts (Disallowed Payments)	<u>1,071,515</u>
Total	<u><u>P69,083,089</u></u>

## 9. Current Liabilities

This account includes the following:

Accrued Interest Payable to BSP	P227,403,145
Accounts Payable - Various	92,645,429
Due to Officers and Employees	2,457,670
Notes Payable to CB-BOL	<u>1,000,000</u>
Total	<u><u>P323,506,244</u></u>

## 10. Long Term Liabilities

This account includes Notes Payable to BSP in the amount of P1,521,000,000.



## 11. Estimated Insurance Losses

This account, also referred to as reserves for insurance losses, consisted of accumulated provision for estimated liabilities to depositors on account of probable closure of banks.

Balance as of 12-31-93	P2,066,458,931
Provision for losses, 1994	1,735,937,914
Less: Allowance for losses on Subrogated Claims Paid ( 16,190,500)	<u>16,190,500</u>
Balance as of 12-31-94	<u>P3,786,206,345</u>

## 12. Other Liabilities

This account includes the following:

Provision for Retirement	P24,719,926
Payable to Perpetual Savings Bank	1,000,000
Deferred Assessments	<u>249,544</u>
Total	<u>P25,969,470</u>

## 13. Assessment Income

Assessment income refers to earned assessment premiums paid by member banks equivalent to 1/5 of 1% of their total deposit liabilities. On or before January 31 and July 31 of each year, insured member banks are required to file their certified statements showing the assessment base for the preceding six months and to pay the corresponding amount of assessment due.

## 14. Financial Income

This includes the following:

Income on investments in Treasury Bills & Savings Deposits - net of taxes	P620,845,433
Interest on Notes Receivable	108,418,273
Interest Earned on dollar time deposits	6,944,339
Income on Phil. Gov't Bonds	907,272
Gain on sale of investments	565,352
Total	<u>P737,680,669</u>

## 15. Other Operating Income

This account includes the following:

Interest on Assessment Premiums	P 454,143
Miscellaneous Income	576,100
Service Income	<u>1,659,850</u>
Total	<u>P2,690,093</u>

Service income refers to administrative fees charged to closed banks under receivership/liquidation computed at 20% of total direct expenses charged to these banks.

## 16. Administrative Expenses

This account includes the following:

Personal Services & Maintenance and Other Operating Expenses	P126,995,583
Less: Receivership Expenses	<u>7,239,016</u>
Total	<u>P119,756,567</u>

## 17. Other Operating Expenses

This account includes the following:

Provision for Uncollectible Accounts	P 6,664,231
Loss on Foreign Currency Conversion	<u>3,485,098</u>
Total	<u>P 10,149,329</u>

## 18. Escrow Deposits

The following banks, in compliance with Regulatory Issuance No. 92-1 regarding rules and regulations governing the posting of security deposit by banks with contested billings, have maintained escrow deposits with government banks as follows:

Name of Bank	Trustee	Amount of Escrow Deposit
Rizal Commercial Banking Corp.	LBP	P 898,804.24
Bank of the Phil. Islands	LBP	978,692.16
Metropolitan Bank & Trust Co.	LBP	1,128,758.68
PNB-Republic Bank	PNB	643,183.47



**REPUBLIC OF THE PHILIPPINES**  
**COMMISSION ON AUDIT**

Commonwealth Avenue, Quezon City, Philippines

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

In compliance with Section 2 of Article IX-D of the 1987 Philippine Constitution and pertinent provisions of Section 43 of the Presidential Decree No. 1445, we have audited the accompanying balance sheet of Philippine Deposit Insurance Corporation as of December 31, 1994 and the related statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management.

As of December 31, 1994, Estimated Insurance Losses is reported at P3.789 billion. This is supposed to represent losses which PDIC incurred on account of probable closure of certain banks. Of this amount, P1.739 billion was charged to 1994 operations. As discussed in the finding, it is the practice of PDIC to set the provision based on the net income before deducting certain provisions. The basis used by the PDIC in estimating insurance losses does not bear any relationship to the risk and extent of exposure that it has on banks that may close, hence, may not realistically measure actual losses incurred.

Owing to the materiality of the amount involved on the matter discussed in the preceding paragraph, we do not express an opinion as to the fairness of the presentation of financial condition of the Corporation as of December 31, 1994 and the results of its operation for the year then ended.

(Sgd.) GEMILIANO V. MALOLES, JR.  
State Auditor IV  
Unit Head

March 30, 1995



## PHILIPPINE DEPOSIT INSURANCE CORPORATION

24 August 1995

MR. GEMILIANO V. MALOLES, JR.  
State Auditor IV  
Commission on Audit

Dear Mr. Maloles.

This is in response to your opinion relative to PDIC's Provision for Insurance Losses.

### Issues Raised

On provision for insurance losses, you recommended that this be based on assessment of recoverables from banks, closed or in danger of closing. Losses would correspond to the portion of subrogated claims not recoverable from realizable assets of such banks.

With regard to the amount of estimated losses to be recognized in the books during the year, you further recommended that PDIC report losses as incurred, consistent with principles of accounting on recognition of expenses.

### PDIC Position

Prior to 1993, the PDIC policy was to set aside a large component of assessment income as provision for insurance losses. This practice was adopted to augment the limited capital and reserves of PDIC that remained inadequate to cover insured deposit claims arising from bank closures in the mid-eighties. The deficiency was funded by borrowings from the former Central Bank of the Philippines. With limited increase in authorized capital and modest infusion of capital, the practice of allocating substantive assessment income to provisions for losses had to be continued. A more analytical framework was developed by 1993 that took account of failure probabilities and historic rate of recovery on assets of closed banks. By 1994, this was refined to incorporate your suggestion for estimating potential insurance losses on bank-to-bank basis when data permit, particularly for large banks.

Since PDIC insurance losses is a residual of insured deposits paid against recoverables from closed banks, estimation of realizable values from recoverable assets was enhanced through adjustments for the following:

1. unbooked valuation reserves with reduction in assets for distribution,
2. assets with prior liens no longer available for general distribution; and,
3. values realized from liquidation generally lower than from disposition by going concern.

Values realizable after such adjustments would be for distribution to creditors, with PDIC accorded preferred status by law over general creditors. Insurance losses would arise where claims paid by PDIC exceed its recovery from the realizable values. Where information on the assets of the bank was not adequate for assessing net realizable values, insurance losses would be derived by multiplying PDIC exposure by rate of losses experienced in previous bank closures.

The estimated insurance losses for operating banks were grouped into five categories, based on their Net Worth-to-Risk Assets Ratio (RAR). The potential losses per group were subsequently multiplied by the probabilities of bank failure for the respective category. The sum of these products would constitute total estimated insurance losses of the Corporation. Banks with negative RAR deemed insolvent under the General Banking Act were assigned a 100% probability of closure. On the other hand, healthy banks with RAR greater than 10%, were nevertheless assigned a failure rate of 0.2% similar to the credit risk assigned to their prime accounts by prudent banks.

The cap on premium rate of insurance set by law effectively limited the annual insurance premium from assessments. Where total premium income fell short of the total estimated insurance losses, the deficiency would be charged against future assessment income, as provided for in Section 6 (d) of the PDIC Charter. The provision was intended to fully cover estimated insurance losses through assessment premia and avoid recourse to budgetary resources of the National Government. Taxpayers would then be spared the burden of bank failures by confining cost recovery to the banking sector.

This is reinforced by the provision of PDIC law that requires restoration from assessments in future years of excess over assessment income arising from

1. PDIC operating costs and expenses,
2. Additions to reserve to provide for insurance losses during the calendar year, except that any adjustment to reserve shall be added, and,
3. Insurance losses sustained in said calendar year plus losses from any preceding years in excess of such reserves.

Proposal to charge the entire estimated losses to current year would be misleading when this would have to be covered from future assessment income as stipulated by law. The justification advanced for immediate recognition of losses is well taken and could be effected through a disclosure in the financial statements, citing said Section 6(d). We intend to adopt this for the 1995 financial statements.

In view of the foregoing, we trust our positions have been clarified.

Very truly yours,

  
ERNEST LEUNG  
President

# PDIC

## REGULATORY ISSUANCES

### REGULATORY ISSUANCE NO. 94-1

TO: All Member Banks

SUBJECT:  
ISSUANCE OF CEASE AND DESIST ORDER

Quoted below is the pertinent Section of RA 3591, as amended (Philippine Deposit Insurance Act), governing PDIC's power to issue Cease and Desist Orders:

#### **SANCTIONS AGAINST UNSAFE AND UNSOUND BANKING PRACTICE.**

"SEC. 7(a) Whenever upon examination by the Corporation into the condition of any insured bank, it shall be disclosed that an insured bank or its directors or agents have committed, are committing or about to commit unsafe or unsound practices in conducting the business of the bank, or have violated, are violating or about to violate, any provisions of any law or regulation to which the insured bank is subject, the Board of Directors shall submit the report of the examination to the Monetary Board to secure corrective action thereon. If no such corrective action is taken by the Monetary Board within sixty (60) days from the submission of the report, the Board of Directors shall, motu proprio, institute corrective action which it deems necessary. The Board of Directors may issue a cease and desist order and require the bank or its directors or agents concerned to correct practices or violations within sixty (60) days. However, if the practice or violation is likely to cause insolvency or substantial dissipation of assets or earnings of the bank, or is likely to seriously weaken the condition of the bank or otherwise seriously prejudice the interest of its depositors and the Corporation, the period to take corrective action shall not be more than fifteen (15) days. The order may also include the imposition of fines provided in Section 16 (f) hereof. The Board of Directors shall duly inform the Monetary Board of the Central Bank of the Philippines of action it has taken with respect to such practice or violations. If the bank violates the cease and desist order or fails to correct the practices or violations as required within the period prescribed herein, the Corporation shall terminate the insured status of the bank. The consequences

of the termination of insured status of the bank on the Corporation, the bank and the depositors and their deposits shall be governed by Section 6(h) hereof.

(b) The actions and proceedings provided in the preceding subsection may be undertaken by the Corporation if, in its opinion, an insured bank or its directors or agents have violated, are violating or about to violate any provision of this Act or any order, rule or instruction issued by the Corporation or any written condition imposed by the Corporation in connection with any transaction with or grant by the Corporation (Amended by EO 890, 08 April 1983; R.A. 7400, 13 April 1992)."

To implement the aforementioned provisions of law, the Corporation has established procedures for the guidance of all member insured banks or its directors or agents, which was approved by the Board of Directors, in its Resolution No. 94-11-118 dated Nov. 25, 1994.

#### Definition of Terms

1. "The Corporation" shall refer to the Philippine Deposit Insurance Corporation (PDIC).
2. "Cease and Desist Order (CDO)" shall refer to the order issued by PDIC, thru its Board of Directors, to a member insured bank or its directors or agents to correct (a) the unsafe or unsound practices in conducting the business of the bank (b) violations of any law or regulation to which the insured bank is subject or (c) violations of the provision of R.A. No. 3591, as amended or any order, rule or instruction issued by the Corporation or any written condition imposed by the Corporation in connection with any transaction with or grant by the Corporation.  
The object of the CDO is to protect depositors and PDIC against existing or potential risk exposure arising from said practices or violations.
3. "Unsafe or Unsound Practices" shall refer to any action or lack of action which is contrary to generally accepted standards of prudent operation, the possible consequences of which, if continued, would result in abnormal risk of loss or damage to a bank,

depositors and its shareholders or even the depletion of the Insurance Fund administered by PDIC.

4. "Responsible Bank Directors/Officers/Employees" shall refer to any bank officer/employee who shall be held accountable or answerable for any conduct or obligation in connection with bank transactions.

#### Procedures

1. When the PDIC's examination of a bank discloses that the bank or its directors or agents (a) have committed, are committing or about to commit unsafe or unsound practices in conducting the business of the bank, (b) have violated, are violating or about to violate any provisions of any law or regulation to which the bank is subject, or (c) if in the opinion of PDIC, the bank or its directors or agents have violated, are violating or about to violate any provision of the PDIC Charter or any order, rule or instruction issued by the PDIC or any written condition imposed by PDIC in connection with any transaction with or grant by PDIC, the bank or its directors or agents shall be given a reasonable period not exceeding 60 days within which to submit an action plan acceptable to PDIC to correct the practices. PDIC shall monitor the bank's compliance to its Action Plan in close coordination with BSP.

2. When the bank fails to submit such action plan within the prescribed period, the examination findings shall be referred to the PDIC Board of Directors for appropriate action.

3. The PDIC Board shall in turn submit the report of the examination to the Monetary Board to secure corrective action and the Monetary Board shall undertake any and all necessary corrective action within sixty (60) days from submission of the report.

4. If no such corrective action is taken by the Monetary Board within sixty (60) days from the submission of the report or despite the MB's directive, no corrective action is taken by the bank or its directors or agents, the PDIC Board shall, motu proprio, institute corrective action which it deems necessary. The PDIC Board of Directors may issue a cease and desist order and require the bank

or its directors or agents concerned to correct practices or violations within sixty (60) days.

PDIC shall enlist BSP's comments on a proposed CDO within 48 hours before it is sent. A copy of the CDO transmitted to the bank shall be simultaneously furnished BSP.

5. The CDO will require the insured bank or its directors or agents to cease and desist from undertaking specific banking activities until defined affirmative actions are taken by the insured bank or its directors or agents concerned to correct practices or violations. Such affirmative actions must be undertaken within sixty (60) days from receipt of such CDO by a responsible bank director, officer or employee. However, if in the discretion of the PDIC Board of Directors, the practice or violation is likely to cause insolvency or substantial dissipation of assets or earnings of the bank, or is likely to seriously weaken the condition of the bank or otherwise seriously prejudice the interests of its depositors and the Corporation, the sixty (60) day period to take corrective action may be shortened to not less than fifteen (15) days. In this case, the bank will also be ordered to cease and desist from accepting deposits until the required affirmative actions are undertaken by the bank or by its stockholders.

6. The CDO shall clearly specify the following:

- a. Unsafe or unsound practice or condition being sought to be corrected;
- b. The person or persons or the banking units or offices to which the CDO is being directed;
- c. The currencies and amounts involved, when applicable;
- d. The time periods within which the specific actions or corrections should be taken; and
- e. Verifiable, relevant action or actions being required.

7. A re-examination of the bank shall be undertaken by the PDIC after the end of the corrective period to verify the bank's

compliance with the requirements of the CDO. Prior to the conduct of the re-examination, PDIC shall consult with BSP for the latest information/development on the bank. If the PDIC Board determines, based on the examination report, and the consultations with BSP that there has been full compliance with the CDO, the Board may order the lifting of the CDO.

8. PDIC may allow an amendment of the CDO in the event PDIC determines that the insured bank has substantially complied with the terms and conditions of the CDO. The Bank may be deemed to have substantially complied with the CDO if all of the following conditions exist:

- a. Policy, management, and procedural changes have been adopted and implemented, which have clearly arrested or reversed the bank's unsafe or unsound condition, and on the basis of which, the bank's condition and operations can be reasonably anticipated to improve, and key statutory prudential ratios are expected to be met in the current accounting period.
- b. In case of bank insolvency, sufficient capital has been infused, to meet the BSP's minimum capitalization requirements; and
- c. The bank has complied with all the reportorial requirements of the CDO.

9. If some unsafe or unsound practices and conditions cannot reasonably be fully corrected within the prescribed period of the CDO, PDIC may also accept a Deed of Undertaking (DOU) from the bank's Board of Directors as substantial compliance if conditions 8b and 8c are met. The DOU must specify the remaining corrective actions which the bank will undertake within a time frame acceptable to PDIC.

10. Sanctions and Penalties for Non-Compliance with the CDO

a. Fines

- (1) For any willful violation or failure to correct the practices or violations, as required within the prescribed period of the CDO, PDIC shall avail of the following remedies

allowed under R.A. 3591, as amended:

- (1.1) PDIC shall fine the directors, officers or employees responsible an amount from P500.00 to P1,000.00 a day for each type of violation, the imposition of which shall be final and executory until reversed, modified or lifted by the PDIC Board of Directors; and

- (1.2) PDIC shall file the appropriate action in Court against the directors, officers or employees responsible for the violations.

- (2) Any of the following shall constitute willful violation of the CDO:

- (2.1) Despite the CDO by PDIC, and after PDIC has given two (2) written warnings, the bank continues to solicit and accept deposits notwithstanding its insolvent position, prejudicing the interest of the depositors and the Deposit Insurance Fund;

- (2.2) After two (2) written warnings from PDIC on the unsafe or unsound practices sought to be corrected, the bank continues to violate any provision of banking law or regulation which causes substantial dissipation of the bank's assets and earnings, seriously weakens the bank's condition and prejudices the interest of the depositors and the Corporation; and

- (2.3) Refusal or failure to comply with the reportorial requirements of the CDO or the submission of false or patently misleading information despite three warnings from PDIC in accordance with the Regulatory Issuance No. 93-1 dated November 9, 1993.

b. Termination of Insured Status

# BOARD OF DIRECTORS

## Roberto F. de Ocampo

Chairman

As Secretary of the Department of Finance, Mr. Roberto F. de Ocampo is concurrently Chairman of the PDIC Board of Directors.

A Bachelor of Arts in Economics graduate of the Ateneo de Manila University, Mr. de Ocampo also holds a Master in Business Administration (MBA) degree from the University of Michigan and is a Fellow in Development Administration of the London School of Economics. He is the youngest ever to be appointed Chairman and Chief Executive Officer of the Development Bank of the Philippines. He was the 1975 Ten Outstanding Young Men awardee in the field of national economic development for pioneering the Rural Electrification Program of the Philippines.



## Ernest Leung

Vice-Chairman and President

Appointed as President of the corporation, Mr. Leung is concurrently Vice Chairman of the PDIC Board of Directors and Chairman of the Central Bank - Board of Liquidators.

A Bachelor of Arts in Natural Science graduate of the Ateneo de Manila University, Mr. Leung obtained his Master of Arts degree in Development Economics from Williams College, USA, under the Ford Foundation Fellowship. He served as Undersecretary of Finance before he was appointed Acting Secretary of the Department of Finance in June 1993.



## Gabriel C. Singson

Director

Mr. Singson graduated valedictorian of his class and magna cum laude in the College of Liberal Arts of the Ateneo de Manila University. He obtained his Bachelor of Laws from Ateneo and garnered second place in the Philippine Bar examination. He received his Master of Laws from the University of Michigan as a Dewitt Fellow and Fulbright Scholar.

He joined the Central Bank of the Philippines in 1955 and rose to become a Senior Deputy Governor. He left Central Bank after more than thirty years of service and became the President of the Philippine National Bank. In July 1993, he was appointed the first Governor of the Bangko Sentral ng Pilipinas, formerly Central Bank of the Philippines, and Chairman of the Monetary Board.





## Felipe B. Alfonso

Director

Mr. Alfonso, President of the Asian Institute of Management, is also the school's William Soeryadjaya Professorial Chairholder in Business Management. He holds a Bachelor of Laws degree from the Ateneo de Manila University and an MBA from New York University.

He is a member of several professional organizations, consultant to several companies in various ASEAN countries and currently, Chairman of the Manila Electric Company. In addition to his professional activities, Mr. Alfonso is involved with a number of community programs aimed at developing self-reliance among the poor and disadvantaged communities.



## Antonio A. Poblete

Director

A Bachelor of Science in Commerce graduate of the De La Salle University, Mr. Poblete is the President of TAP Management & Technical Specialists, Silang Finance Corporation, and A & S Trading Development Corporation. He also served as Director of the Rural Bank of Silang Association and Consultant of the Silangan Savings and Loan Bank. Also active in local government, he served as Provincial Board Member of Cavite from 1984 to 1986, Senior Board Member from 1988 to 1992 and Vice Governor in 1992. He is currently the Charter Director of the Silang Jaycees.



# LIST OF OFFICERS

AS OF DECEMBER 31, 1994

	CENTER / OFFICE
<b>President</b>	
ERNEST LEUNG	Office of the President
<b>Senior Vice Presidents</b>	
ROSALINDA U. CASIGURAN	OSVP - Claims, Receivership and Liquidation
CAESAR OCTAVIUS V. PARLADE	OSVP - Insurance and Examination
NIEVELENA V. ROSETE	OSVP - Corporate Services
<b>Vice Presidents</b>	
AURORA C. BALDOZ	OVP - Receivership and Liquidation
CATHERINE F. BAMBA	OVP - Special Services
MA. ELENA E. BIENVENIDA	OVP - Finance
ELEANOR B. LOPEZ	OVP - Human Resource & Internal Serv. Mgt.
ARMANDO L. QUILALA	Management Control Office
BEVERLY B. SANCHEZ	OVP - Special Assistance and Actions Group
ELENITA B. VIDAL	OVP - R & L Operations Control Office
<b>Department Managers III</b>	
SANDRA P. ARCE	Field Examination Center II
RESCINA S. BHAGWANI	Financial Assistance Management Center
JOSEFINA G. COLIGADO	Treasury Center
TEODORO E. GALLARDO	Presettlement Examination Center
JOSEPHINE C. GONZALES	Claims Settlement Center
TERESITA D. GONZALES	R & L Takeover Center
AVELINO T. IGLESIAS, JR.	Legal Services for Administration Center
NOEMI R. JAVIER	R & L Asset Administration & Recovery Center I
MA. GORETTI I. JIMENEZ	Bank Performance Monitoring Center
JOCELYN J. NEPOMUCENO	Insurance Office
GLORIFICACION M. NOCOS	Accounting Center
FLORDELIZ C. PORSOVIGAN	Internal Services Management Center
CRISTINE C. REMOLLO	Legal Services for Operations Center
PABLO Y. ROMERO, JR.	R & L Litigation Center
LILIAN I. SERNA	Failure Resolution Center
EDITA D. VILLAR	R & L Settlement Center
ROSOLA A. VIVAS	Information Technology Center
<b>Assistant Department Managers II</b>	
ESTHER LILY JEANNE Q. ACEÑA	Human Resource Management Center
GERONIMO V. AMBE	Field Examination Center I
EDGAR C. ANTE	Presettlement Examination Center
MA. JOJI V. ARAGON	Client Services and Information Center
MERLIE M. CAÑAVERAL	Treasury Center

VICTORIA M. CANCINO  
LEVY C. CRUZ  
SERAFIN A. FULE, JR.  
TEODORO JOSE D. HIRANG  
FILOMENA E. JONGCO  
BENEFICO M. MAGDAY  
ANTONIO V. MARQUEZ  
ELIZABETH E. OLLER  
RODANTE G. PINEDA  
RENATO N. PULIDO  
ELISEO R. RAMALLOSA  
IMELDA R. SALGADO  
JESUS G. SERRANO  
ZENAIDA A. VILLAROMAN

**Corporate Executive Officer III**

ESTER B. BINALLA

**Corporate Executive Officers II**

ZENAIDA P. BAUTISTA  
BENJAMIN M. SALES, JR.  
MA. ANA CARMELA L. VILLEGAS

**Corporate Executive Officers I**

MA. THERESA G. ACCION  
MIRIAM G. ALBAO  
NICANORA H. BAG-AO  
CARLITO B. BANAAG  
FERDINAND M. BELUAN  
MARY ANN C. CRISOSTOMO  
ALBERTO M. CRUZ  
AURAMAR O. DE ONON  
JOSE ALEXANDER G. FESTIN  
ANITA R. GONGON  
LOLITA M. HERNANDEZ  
LOURDES H. ILARDE  
RAMON A. MAAMO  
VIVENCIO M. MANIAGO  
VICTORIA P. MARTINEZ  
ANGEL B. OBRERO  
QURALENE P. PATALINGHUG  
RUTH A. REFRAN  
RIZALINA I. REPEDRO  
LOLITA D. REYLLO  
ANALIZA R. SANTOS  
ARACELI H. TABAC  
JOSEFINA J. VELILLA

Presettlement Examination Center  
OVP - Receivership and Liquidation  
Field Examination Center I  
R & L Takeover Center  
Management Control Office  
R & L Settlement Center  
R & L Asset Administration & Recovery Center I  
Claims Settlement Center  
Information Technology Center  
R & L Asset Administration & Recovery Center I  
Failure Resolution Center  
R & L Asset Administration & Recovery Center I  
Corporate Litigation Center  
Management Control Office

Office of the President

Accounting Center  
Bank Performance Monitoring Center  
Financial Assistance Management Center

OVP - Special Actions and Assistance Group  
Client Services and Information Center  
OSVP - Claims, Receivership and Liquidation  
Management Control Office  
R & L Takeover Center  
R & L Takeover Center  
R & L Settlement Center  
Client Services and Information Center  
Information Technology Center  
Field Examination Center I  
OVP - R & L Operations Control Office  
Bank Performance Monitoring Center  
OVP - R & L Operations Control Office  
Claims Settlement Center  
Office of the Corporate Board Secretary  
OVP - R & L Operations Control Office  
Management Control Office  
Treasury Center  
R & L Asset Administration & Recovery Center I  
Field Examination Center II  
Insurance Office  
Human Resource Management Center  
Financial Assistance Management Center

**Legal Officers IV**

MARY ROSALIND A. ALARCA  
 MA. ANTONETTE I. BRILLANTES  
 FIDEL V. LOMIBAO  
 LUISITO Z. MENDOZA

Corporate Litigation Center  
 R & L Litigation Center  
 Legal Services for Operations Center  
 Legal Services for Operations Center

**Division Chiefs III**

THELMA B. ARIAS  
 JUANITO R. ENRIQUEZ  
 JUAN V. LANTING  
 HERMINIA T. LLOREN  
 AURORA A. TORRES  
 ANTOINETTE L. VIDAL  
 GLORIA M. VILLANUEVA

Accounting Center  
 Accounting Center  
 Office of the President  
 Internal Services Management Center  
 Accounting Center  
 Human Resource Management Center  
 Internal Services Management Center

**LEGEND:**

OSVP - Office of the Senior Vice President  
 OVP - Office of the Vice President

**PDIC AFFILIATED ORGANIZATIONS****Provident Fund Office**

ROSALINDA U. CASIGURAN	Chairman
BEVERLY B. SANCHEZ	Vice Chairman
SANDRA P. ARCE	Trustee
JOSE A. BENDAÑA	Board Member
JOSELITO H. CAÑAVERAL	Board Member
SIMEON B. KASALA, JR.	Accountant

**PDIC Employees' Organization (PHILDICEO)**

BALDWIN L. SYKIMTE	President
BERNARDINO A. TONGKO	1st Vice President
ERWIN L. GONZALEZ	2nd Vice President
IMELDA K. MAGSINO	Treasurer
MA. SARAH F. ASOMBRADO	Secretary

**PDIC Employees' Multi-Purpose Cooperative, Inc. (PEMCI)**

VIVENCIO M. MANIAGO	Chairman
RESCINA S. BHAGWANI	Vice Chairman
GLORIFICACION M. NOCOS	Treasurer
ESTHER LILY JEANNE Q. ACEÑA	General Manager
ESTER B. BINALLA	Secretary
CATHERINE F. BAMBA	Board Member
IMELDA R. SALGADO	Board Member
ZOSIMA D. LACONSAY	Board Member
ERIBERTO B. MAGBUHAT	Board Member

# PDIC OFFICES & CENTERS

## **Management Control Office (MCO)**

Serves as the internal audit arm in monitoring the achievement of corporate goals with focus on quality of service, effectiveness of controls, and efficiency of operations.

## **SPECIAL SERVICES**

### **Information Technology Center (ITC)**

Develops and maintains systems to support both operational and staff services; assumes primarily the responsibility of adapting advancements in information technology throughout the corporation.

### **Planning Center (PC)**

Coordinates the formulation of corporate strategies and plans; provides and manages the information systems of the corporation on the economy, the banking industry, and the corporation's performance for research and economic monitoring activities.

### **Public Services & Information Center (CSIC)**

Provides frontline services to depositors, banks, and the general public and acts as coordinating arm with state government and non-government institutions; develops and disseminates information materials to educate the public on PDIC's functions and issues affecting depositors.

## **SPECIAL AFFAIRS**

### **Investigation Center (IC)**

Investigates frauds and irregularities in open and closed banks; does background investigation of PDIC employees, suppliers and contractors; performs credit investigation on proponents to rehabilitate closed banks, and property checking of borrowers of closed banks.

### **Corporate Litigation Center (CLC)**

Handles cases filed by or against PDIC as insurer of deposits as well as other cases concerning the corporation except cases involving closed banks; monitors the status of cases handled by the Office of the Government Corporate Counsel.

### **R & L Litigation Center (R&L LC)**

Handles petitions for assistance in the liquidation of closed banks as well as collection and recovery action for PDIC as receiver/liquidator of closed banks; supervises and monitors the status of cases handled by the Office of the Solicitor General, accredited external counsels, and the Office of the Regional Prosecutors.

### **Legal Services for Operations Center (LSOC)**

Renders legal opinions, reviews or prepares contracts and documents for the Insurance and Examination Sector (IES) and Claims, Receivership and Liquidation (CRL) Sector and undertakes legal researches and special studies for the said sectors.

### **Legal Services for Administration Center (LSAC)**

Provides legal services such as opinions on administrative matters, drafting of documents, and undertakes special studies for the centers and offices under the Office of the President (OP) and Corporate Services Sector (CSS).

## **CLAIMS, RECEIVERSHIP & LIQUIDATION (CRL) SECTOR**

### **R & L Operations Control Office (R&L OCO)**

Develops and implements audit and quality review systems for all banks under PDIC receivership and liquidation to safeguard the interests of creditors of failed banks.

### **Presettlement Examination Center (PEC)**

Reviews the books of accounts of banks placed under receivership to determine insured deposits.

### **Claims Processing Center (CPC)**

Receives and verifies all claims of depositors in closed banks under the direct mode of settlement.

### **Claims Settlement Center CSC)**

Arranges for payment of claims filed by depositors through transferee banks to ensure prompt and proper settlement of insured deposits; files subrogated claims with all closed banks.

### **R&L Takeover Center (R&L TOC)**

Implements Monetary Board order of closing a bank and undertakes receivership of closed banks; handles maintenance and partial liquidation of banks located in Regions 4 and 5.

### **R & L Asset Administration & Recovery Center 1 (AARC 1)**

Handles maintenance and partial liquidation of closed banks in the National Capital Region and Region 3.

### **R & L Asset Administration & Recovery Center 2 (AARC 2)**

Handles maintenance and partial liquidation of closed rural banks in Regions 1, 2, 6, 7, and 8.

### **R & L Settlement Center (R&L SC)**

Handles maintenance and partial liquidation of closed banks in Regions 9, 10, 11 and 12; terminates liquidation proceedings of closed banks.

## **INSURANCE AND EXAMINATION SECTOR (IES)**

### **Insurance Office (IO)**

Performs all assessment functions for all member banks; recommends to the PDIC Board the termination of insured status of banks due to non-payment of insurance premiums.

### **Bank Performance Monitoring Center (BPMC)**

Undertakes off-site monitoring of all member banks and acts as the information center for IES.

### **Field Examination Center 1 (FEC 1)**

Performs on-site examination of commercial banks, savings and loan associations, and savings and mortgage banks for safety and soundness and compliance with banking laws; conducts assessment audit of commercial and universal banks.

### **Field Examination Center 2 (FEC 2)**

Performs on-site examination of rural banks, private development banks, and specialized government banks for safety and soundness and compliance with banking laws.

### **Failure Resolution Center (FRC)**

Recommends least-cost resolution for problem banks requesting financial assistance from PDIC; implements Cease and Desist Order procedures against banks with unsafe and unsound practices; evaluates rehabilitation/acquisition proposals for closed banks and merger proposals involving problem banks.

### **Financial Assistance Management Center (FAMC)**

Evaluates proposals for rehabilitation of distressed or closed banks; when feasible and least costly, recommends financial assistance to such banks; monitors financial condition and operation of banks under financial assistance, and their compliance with terms and conditions of the financial assistance agreements.

## **CORPORATE SERVICES SECTOR (CSS)**

### **Treasury Center (TC)**

Ensures availability of fund requirements of the corporation; prepares and monitors the corporate budget; manages the investments of the corporation and banks under receivership and liquidation for optimum returns; conducts direct settlement of claims.

### **Accounting Center (AC)**

Prepares the corporate financial reports; maintains financial records of the corporation; processes employee remittances and payments of corporate expenses.

### **Human Resource Management Center (HRMC)**

Plans and implements the corporation's personnel management and development programs and policies in recruitment and staffing, training, employee welfare and benefits, and career development programs.

### **Internal Services Management Center (ISMC)**

Procures equipment, supplies, and services; manages security, messengerial and janitorial services; maintains the building, its facilities, equipment and other properties.

## **PDIC AFFILIATED ORGANIZATIONS**

### **Provident Fund Office (PFO)**

Manages funds contributed by the corporation and employees to provide loans, separation and retirement benefits.

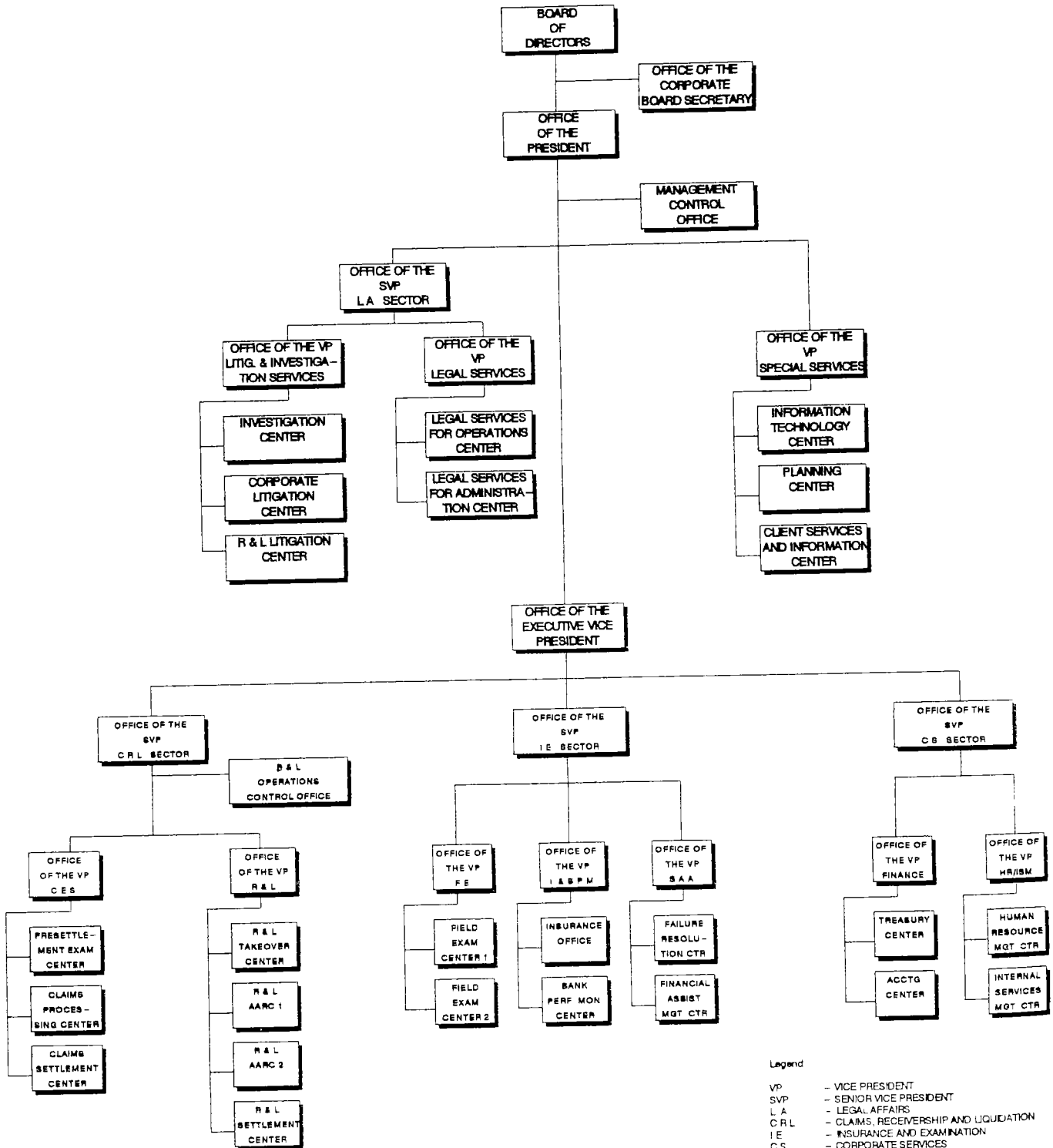
### **PDIC Employees' Organization (PHILDICEO)**

Upholds the welfare of the employees of PDIC; advances employees' rights; promotes harmonious relations between labor and management.

### **PDIC Employees' Multi-Purpose Cooperative, Inc. (PEMCI)**

Provides immediate credit facilities to member employees for productive and providential purposes; promotes the value of savings and the cooperative as a way of life for improving social and economic well-being of employees.

# PDIC ORGANIZATIONAL CHART



- Legend
- VP - VICE PRESIDENT
  - SVP - SENIOR VICE PRESIDENT
  - L.A. - LEGAL AFFAIRS
  - C.R.L. - CLAIMS, RECEIVERSHIP AND LIQUIDATION
  - I.E. - INSURANCE AND EXAMINATION
  - C.S. - CORPORATE SERVICES
  - R & L - RECEIVERSHIP AND LIQUIDATION
  - A.A.R.C. - ASSET ADMINISTRATION AND RECOVERY CENTER
  - C.E.S. - CLAIMS EXAMINATION SETTLEMENT
  - F.E. - FIELD EXAMINATION
  - I & B.P.M. - INSURANCE AND BANK PERFORMANCE MONITORING
  - S.A.A. - SPECIAL ACTIONS AND ASSISTANCE
  - HR/ISM - HUMAN RESOURCE/ INTERNAL SERVICES MANAGEMENT
  - [Box] - POSITIONS OCCUPIED

Approved by  
 PDIC Board of Directors