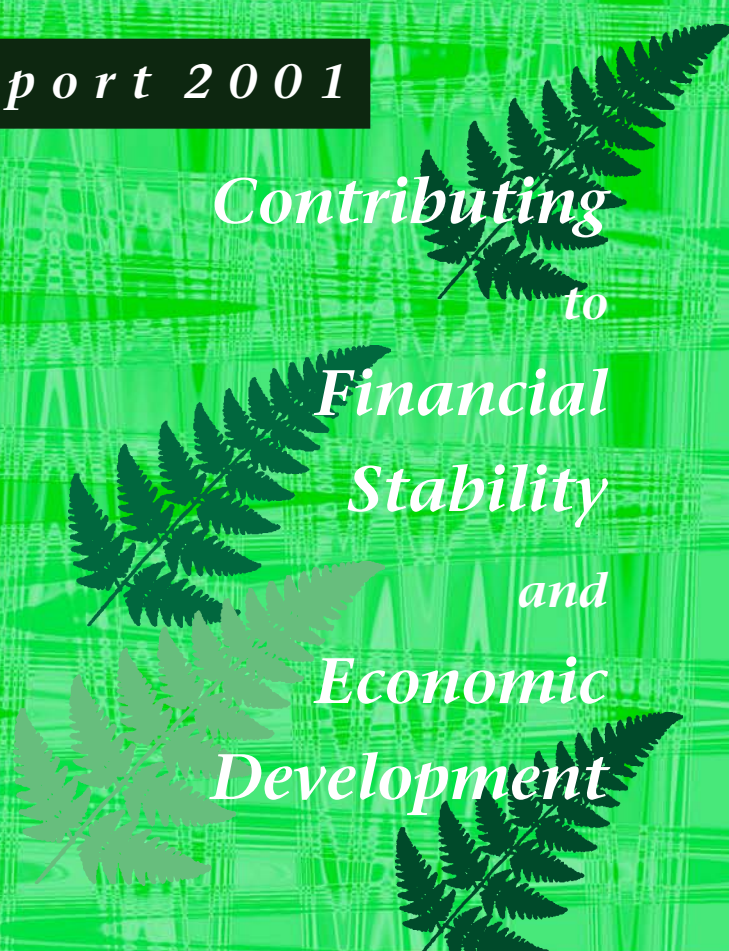




Philippine Deposit Insurance Corporation

Annual Report 2001



*Contributing
to
Financial
Stability
and
Economic
Development*



Philippine Deposit Insurance Corporation

Vision

The *Philippine Deposit Insurance Corporation*, operationally responsive to the needs of the depositing public and the banking community; professionally managed, financially strong, adequately manned and equipped, toward the enhancement of sound banking and savings mobilization for national development.

The PDIC employee, an epitome of exemplary public service.

Mission

As *Insurer*, provide adequate depositor protection and education, and ensure immediate processing and settlement of depositor claims;

As *Regulator*, conduct diligent monitoring and examination of member banks and undertake prompt, decisive and prudent interventions;

As *Receiver* and *Liquidator*, implement efficient receivership, judicious rehabilitation, and expeditious liquidation of closed banks.

Beliefs

Integrity, professionalism, resourcefulness, perseverance, teamwork, and developmental spirit are essential in accomplishing our missions;

Improvement of service delivery is a continuing commitment; and

People are our most important resource.



Our cover

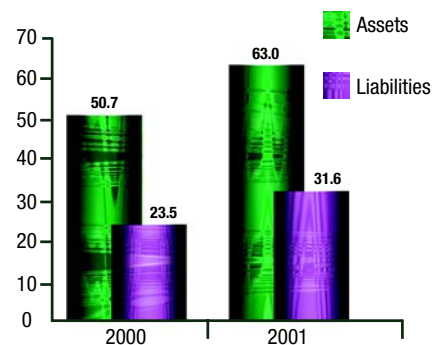
Our cover adopts a digital rendition of the *ikat*, a traditional form of weaving among the T'boli people of Southern Mindanao and *fern*, a plant common in the country, whose prolific and adaptable nature has allowed it to survive the rigors of nature.

PDIC draws inspiration from both the *ikat* and the *fern*: the *ikat* for its representation of the Filipino character and ingenuity, strength and power, tradition and disciplic succession; and the *fern* for its sturdiness, and its ability to adapt to changes in the environment, a paragon of unmatched resilience. These symbols epitomize PDIC's steadfast commitment to safeguard the interest of depositors and help maintain stability in the Philippine banking system.

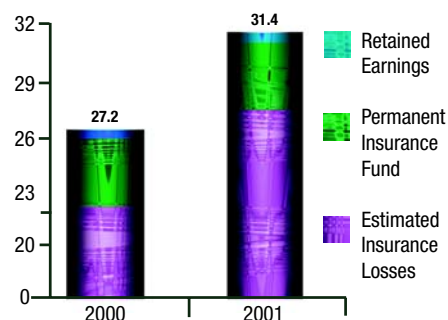
2001 At A Glance

- PDIC website, www.pdic.gov.ph, was officially uploaded in January.
- PDIC President and Chief Executive Officer Norberto C. Nazareno was elected Chairman of the Board of the Philippine National Bank (PNB) in May during the Bank's annual stockholders' meeting, in relation to PDIC's P10 billion financial assistance extended to the Bank in October 2000.
- Honorable Jose Isidro N. Camacho, Secretary of the Department of Finance (DOF), assumed Chairmanship of the PDIC Board on June 8, while Ms. Carmen DV. Lim and Mr. Pastor T. Saycon were appointed private sector representatives on May 2 and May 31, respectively.
- Urban Bank was reopened in August as Export and Industry Bank after 16 months under PDIC receivership following the signing of Memorandum of Agreement among PDIC President and CEO Norberto C. Nazareno, Export and Industry Bank Chairman Sergio Ortiz-Luis, Jr., and the National Association of UBI/UII Depositors and Creditors, Inc. President Josue Camba, Jr.
- PDIC Training Institute, in collaboration with the Bankers Institute of the Philippines, Inc., conducted its inaugural outreach seminar, *Your Bank and PDIC: Partners Towards Productivity and Progress*, on September 7 at the Jordan Hall of the Sarabia Manor Hotel and Convention Center in Iloilo City.
- The Term Sheet for the rehabilitation of PNB was signed on December 19 by the Government, represented by the DOF and PDIC, and the Lucio Tan Group of Companies.
- PDIC turned over a total of P5.51 billion to the National Government (P3.80 billion) and other public sector creditors (P1.71 billion), representing dividends from net income for the years 2000 and 2001, and surplus dividends from the liquidation of PISO Development Bank and Pacific Banking Corporation.

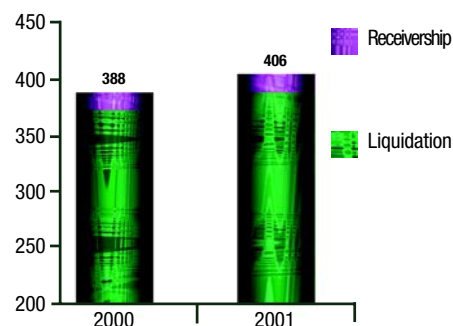
PDIC Assets and Liabilities



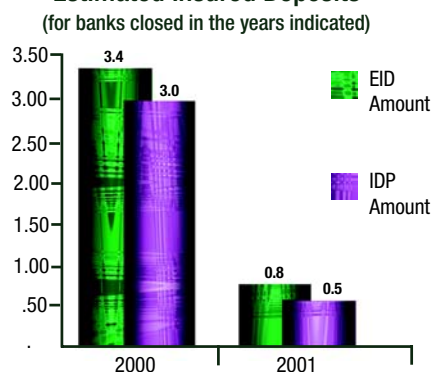
PDIC Insurance Reserves



Banks Under PDIC Receivership and Liquidation



Insured Deposits Paid vs. Estimated Insured Deposits



Note: Amount in billion pesos.



PHILIPPINE DEPOSIT INSURANCE CORPORATION

NORBERTO C. NAZARENO
President and Chief Executive Officer

20 May 2002

HER EXCELLENCY
PRESIDENT GLORIA MACAPAGAL-ARROYO
Malacañang Palace, Manila

Through: **Honorable JOSE ISIDRO N. CAMACHO**
Secretary, Department of Finance and
Chairman, PDIC Board of Directors

Dear Madame President:

I have the honor to submit the Annual Report of the Philippine Deposit Insurance Corporation for the year 2001. The Report highlights the performance and results of operations of the Corporation in enhancing depositor confidence and helping to promote stability in the banking system.

The PDIC Board of Directors, management and staff thank Her Excellency for her support as we reaffirm our commitment to safeguard the interest of depositors, foster stronger confidence in the banking system, and pledge our unfailing efforts towards excellence in service.

Very truly yours,



PHILIPPINE DEPOSIT INSURANCE CORPORATION

NORBERTO C. NAZARENO
President and Chief Executive Officer

20 May 2002

Honorable FRANKLIN M. DRILON
President of the Philippine Senate

Honorable JOSE DE VENECIA, JR.
Speaker of the Philippine House of Representatives

Through: **Honorable JOSE ISIDRO N. CAMACHO**
Secretary, Department of Finance and
Chairman, PDIC Board of Directors

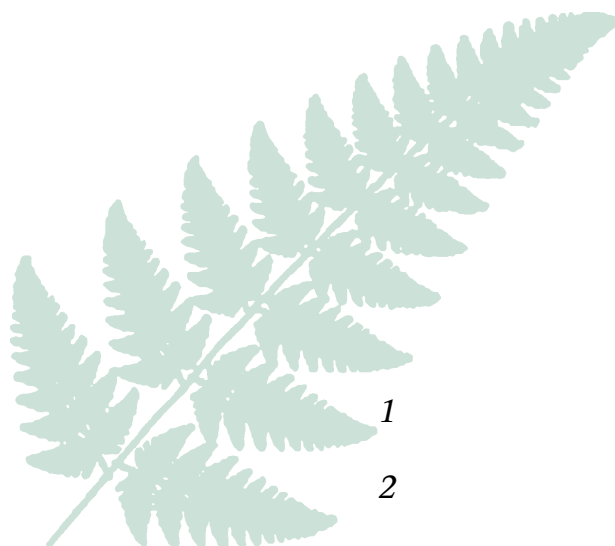
Gentlemen:

I have the honor to submit the 2001 Annual Report of the Philippine Deposit Insurance Corporation pursuant to the provision of Section 15 of Republic Act 3591, As Amended. The report highlights the performance of the Corporation in pursuit of its mandate to provide greater depositor protection through deposit insurance, extension of financial assistance, efficient receivership and expeditious liquidation of closed banks, and assist the primary regulator in the effective regulation of banks under guidance and direction set by the Monetary Board.

On behalf of the directors of the PDIC Board, management and staff, I thank you for your support to the banking industry and look forward to fostering closer relations with you towards safeguarding the interest of the depositors and in instilling market discipline in the banking sector, complementing the Bangko Sentral ng Pilipinas.

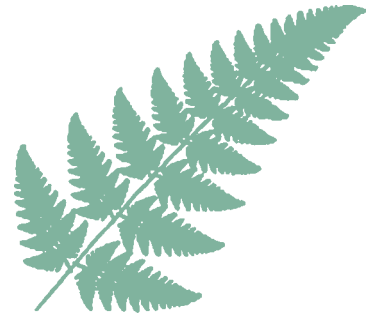
Very truly yours,

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PDIC Board of Directors
The PDIC Management
The PDIC Roll



Affiliated Organizations

PDIC Organizational Chart



President's Report



It has been two years since I joined the Corporation, and I am glad to be part of an organization that is taking on deeper roots into its vision and mission, towards more effective and efficient depositor protection and judicious receivership and liquidation of closed banks for the best interest of their depositors and creditors, as well as in assisting the primary regulator in maintaining stability in the banking system. In performing our mandate, at times, we encounter negative criticisms and Temporary Restraining Orders, even slapped with legal suits from owners of some closed banks. However, in spite of all these hazards, we strive to live up to our commitment of effectively policing banks, instilling market discipline and fostering proper governance. We shall forge ahead with determination in innovating and enhancing our capability, at the same time learn from our experiences to continuously guide and inspire us in our work.

Highlights of 2001 Performance

With the non passage of the PDIC Charter Amendments under the 11th Congress by yearend 2001, we further revised the draft bill to provide for a stronger legal framework within which to operate, not only as insurer and receiver/liquidator of closed banks, but also as co-supervisor of the banking system in close coordination with the

Charter Amendments



primary regulator, the Bangko Sentral ng Pilipinas (BSP), under guidance and direction set by the Monetary Board.¹

In spite of our limited manpower resources and the increasing number of depositor claims, we can now start accepting and paying claims for insured deposits commencing on the 22nd day or after three (3) weeks from the date of PDIC takeover of the closed bank depending on the state of deposit records of the bank. If the records of the bank are generally in good condition, depositors with deposits of P10,000 and below are immediately paid their claims without detailed examination conducted. We have also implemented the Computerized Claims and Pay-off Operations System (CCPOS), replacing manual recording of claims through logbook. With the system's automatic check printing feature, check preparation to pay claims is expedited.

During the year, there were 18 banks ordered closed by the Monetary Board and taken over by the Corporation. Total insured deposits in these banks amounted to P760.05 million, involving 94,001 accounts. We were able to start payment in 15 of

¹ Proposed amendments to the PDIC Charter are contained in Senate Bill No. 2009 sponsored by Senator Ramon B. Magsaysay, Jr. and in House Bill No. 255 sponsored by Congressman Jesli A. Lapus.

these banks, with the prescribed turn-around-time met in 12 banks. Total claims paid in the 15 banks amounted to P544.83 million, involving 21,051 accounts. Together with claims paid to depositors of banks closed prior to 2001, PDIC paid a total of P1.44 billion, involving 49,216 accounts, during the year. This resulted in a total of P12.36 billion, involving 1.42 million accounts, claims paid by the Corporation since 1970.

As of yearend 2001, there were 406 closed banks under PDIC receivership/liquidation, with estimated realizable value of assets (ERVA) of more than P18.74 billion and liabilities of more than P35.69 billion. To improve our liquidation operations, we have created the Asset Management Group (AMG) to focus solely on asset management and disposition. In line with its mandate, the AMG implemented schemes to expedite disposal by adopting online advertising of some real estate assets of closed banks in the PDIC website. We have also resorted to bodega sale in disposing some furnitures, fixtures and equipment, as well as engage brokers to assist us in disposing real estate properties of closed banks. For 2001, total recoveries amounted to P630.97 million, more than twice the target for the year at P280 million, following improved efforts in loan collection and innovations in strategies adopted in asset disposal.

Significant marks in our risk management task are the reopening of Urban Bank Inc. (UBI) and the rehabilitation of the Philippine National Bank (PNB). With determination and commitment to protect the interests of depositors and with the concerted efforts of the bank's depositors, UBI was reopened as Export and Industry Bank after 16 months under PDIC receivership. The PNB Term Sheet, which contains the terms and conditions for the rehabilitation of the bank, was signed by the government, represented by Finance Secretary Jose Isidro Camacho, and the bank's major stockholder, Lucio Tan, before the year ended.²

PDIC extended financial assistance to one commercial bank and two rural banks amounting to P655.06 million. Total outstanding financial assistance by yearend amounted to P25.79 billion, including those previously extended with funding arrangements from BSP as reflected in the books of the Corporation.

For 2001, we have remitted a total of P5.51 billion to the National Government and other public sector creditors. The National Government, through the Bureau of the Treasury, received a total of P3.80 billion, of which P2.75 billion represents dividends from PDIC net investment income for the years 2000 and 2001, remitted pursuant to Republic Act 7656; and P1.05 billion represents surplus dividends from liquidation of PISO Development Bank. The BSP, Central Bank – Board of Liquidators and Privatization Management Office received a total of P1.71 billion representing surplus dividends from the liquidation of PISO Development Bank and Pacific Banking Corporation.

PDIC aims to continuously serve with dedication and excellence, committed to the government's thrust toward good governance. Greater disclosure and transparency are observed both internally and in transacting with external clients. Information dissemination is continuously being enhanced with the operationalization of the PDIC Website, access to internet and e-mail facilities, conduct of regular meetings between management and various sectors/groups, and the conduct of outreach training programs by the PDIC Training Institute. We have also embarked on an intensive information campaign through radio and television infomercials that were aired for a limited period starting mid 2001.

In skills upgrading, priority is equally given to managerial, team

² The Memorandum of Agreement on the rehabilitation of PNB was signed on May 3, 2002.

President's Report

building and values enhancement programs to improve working relationships and instill discipline and professionalism, achieving personal, professional and corporate values. For the entire year, the Corporation spent a total of P6.87 million for both foreign and domestic training, benefiting 1,611 participants.

Technical Assistance Grants We were fortunate to have benefited from the implementation of projects funded by the World Bank and the Asian Development Bank which started in mid 1998 and ended in December 2001. Aimed at enhancing the capacity of the Corporation, foreign and domestic experts in identified fields were engaged to provide valuable insights on bank supervision and risk management, human resource management, records management, information technology, and legal management. Streamlining of processes and procedures in the claims and receivership/liquidation operations was also undertaken. Aside from technical experts engaged, the Corporation benefited from foreign training seminars and study visits in peer institutions, which otherwise would have been impossible given existing local resources.

The Years Ahead

We are aware that beyond takeover of closed banks, the ultimate service is the prompt payment of depositors' insured deposits; beyond the sale of assets, the final goal is the distribution of liquidation proceeds to creditors at the soonest possible time; and beyond monitoring of the banking system is the responsibility of assisting the primary regulator in ensuring safe and sound banking. This is why the Corporation will continue to pursue efforts to further enhance its powers, and innovate and institute schemes to improve processes and procedures towards efficient and effective delivery of services.

We shall closely coordinate with Congress for the early passage of the proposed PDIC Charter Amendments. We shall continue to expand our use

of information technology, particularly in client servicing. We shall remain steadfast in our fight against erring officials of closed banks to preserve the integrity of the system.

To further improve claims servicing, we shall continue to develop computerized systems to further shorten turn-around-time in claims settlement operations. We hope to complete the development of Claims Tracking System (CTS) which will facilitate monitoring of status of insured deposit claims, particularly useful in attending to follow-up queries of claimants. We shall also develop an integrated system for claims processing to hasten settlement of claims for insured depositors.

Development of manpower resources shall remain a priority of the Corporation. The PDIC Training Institute shall continue to provide necessary training interventions towards skills upgrading and leadership and professional competency of PDIC staff. It shall also expand its outreach program to assist in the capability building of thrift and rural banks in the regions. We shall further strengthen information dissemination and linkages with various industry associations, empowering the public with timely and accurate information.

We look forward to the benefits and learning experiences we shall gain from our membership in the international community of deposit insurers to enhance awareness of common interests and issues related to deposit insurance, facilitate sharing of expertise by providing training and development, and undertake researches into deposit insurance issues and develop standards.

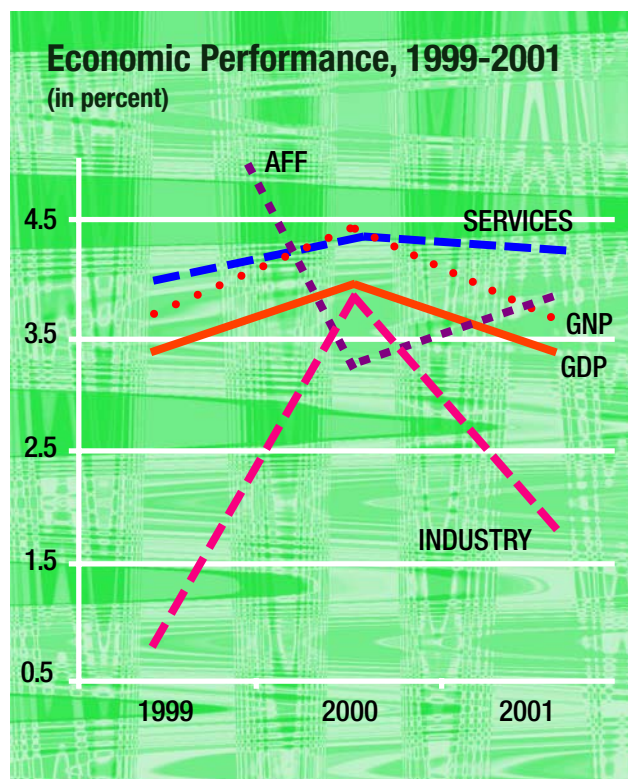
PDIC shall remain committed to its mandate to protect the depositing public and help in maintaining confidence and stability in the banking system. It shall continue to strive towards service excellence, under a corporate environment where teamwork, integrity and transparency are fostered.

The Year in Review

The Economy

The Philippine economy posted positive growth in 2001 despite global economic slowdown, aftereffects of EDSA II and security issues in Mindanao. The country fared better than most of its Asian neighbors¹, with 3.7 percent growth in gross national product and 3.4 percent in gross domestic product. Moreover, the modest performance surpassed the various projections made by the multilateral agencies on the performance of the Philippine economy for 2001.²

The positive performance is attributed to the growth in the services and agriculture sectors at 4.3 percent and 3.9 percent, respectively. The industry sector, which posted growth at 1.9 percent, was the most affected by the poor investment climate, further worsened by global economic slowdown. On the expenditure side, private consumption demand went up by 3.4 percent from 2000 level. This can be attributed to the increase in rural income arising from increased agricultural production, as well as increased remittances of overseas Filipinos which amounted to P365.7 billion, 29.8 percent higher than remittances in 2000. The slowdown in the global economic activity also weakened the export market resulting in a negative growth of 3.2 percent, while demand for imports increased only by a mere 0.5 percent.



	1999 ^{r/}	2000	2001
GNP	3.7	4.5	3.7
GDP	3.4	4.0	3.4
Agriculture, Fishery & Forestry Sector (AFF)	6.5	3.3	3.9
Industry Sector	0.9	3.9	1.9
Services Sector	4.0	4.4	4.3
Banking Sector	0.9	-0.4	0.0

r/ revised
Source: National Statistical Coordination Board

¹ GDP growth rates of selected Asian countries: Thailand (1.8%); Malaysia (.4%); Indonesia (3.3%); Singapore (-2%); Korea (3.9%); Hong Kong (.2%); China (-1.9%); and Vietnam (5.8%).

² Projected GDP growth rates for the Philippines: Asian Development Bank (2.7%); International Monetary Fund (2.9%); and World Bank (2.5%).

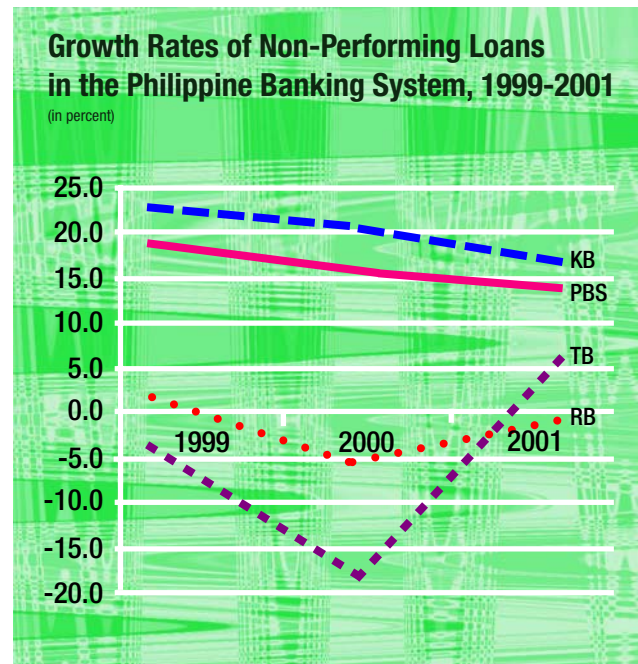
The Banking Industry

The banking sector lagged behind the general performance of the economy as it posted zero growth as measured by its gross value-added, despite lower interest rates and a more stabilized peso-dollar exchange rate. Combined total resources of its 926 banks (PDIC members) totaled P3.27 trillion, registering only a 1 percent growth over previous year's level. The growth in assets of thrift banks and rural banks at 5.2 percent and 9.5 percent, respectively, was not strong enough to make a significant increase in total resources considering the small contribution of these groups (10 percent of total banking assets). Commercial banks, contributing 90 percent to total resources, posted a mere 0.54 percent growth.

The quality of assets of the banking industry continued to deteriorate as non-performing loans (NPLs) as well as repossessed properties continued to rise. This resulted to an increase in the ratio of gross problematic assets to total assets to 17.1 percent from 14.9 percent in 2000. The ratio of NPLs to total loans alone further deteriorated from 14.3 percent in 2000 to 16.4 percent in 2001. With the increase in loan defaults, loan loss provisions of banks also increased, which reached P139.5 billion in 2001 from P117.4 billion in 2000. These reserves covered 47.2 percent of non-performing loans and 7.7 percent of gross loans.

The liquidity standing of the banking industry, however, was in a better position by yearend as measured by the ratio of quick

assets to total deposits (QAR), from 32.9 percent in 2000 to 33.4 percent in 2001, arising from increased QAR of commercial banks at 34 percent from 32.8 percent. QAR for thrift banks slid from 34.4 percent to 26.2 percent, while QAR of rural banks remained at 32 percent level. Banks used their funds more in investing in less risky government securities rather than in extending loans. For every one



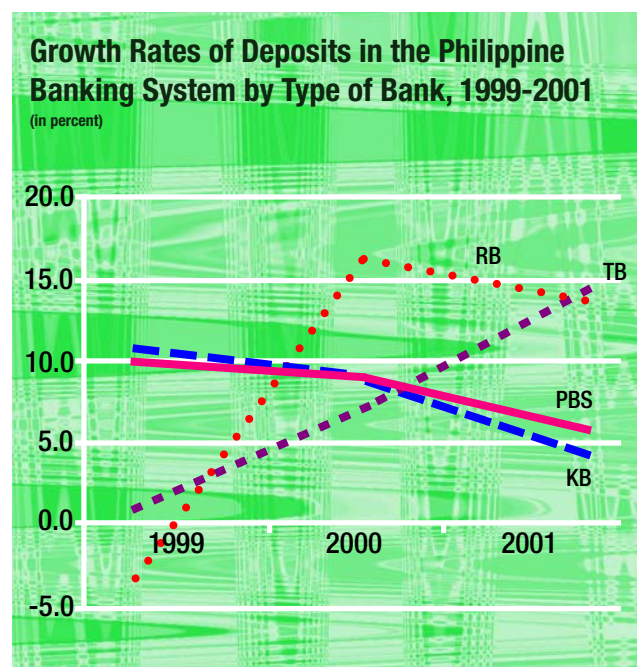
	1999	2000	2001
Total NPL (billion pesos)	223.6	258.4	295.7
Growth Rate (in Percent)			
PBS	18.2	15.6	14.4
KB	22.1	20.0	15.5
TB	-5.2	-19.1	5.7
RB	0.9	-6.0	-0.4

peso deposit received by banks, only P0.82 was lent in contrast to P0.87 in 2000.

Deposits grew by 5.5 percent from 8.6 percent in 2000, with increases registered in demand and savings deposits. On a per bank type, generation of deposits by commercial banks which grew by 4.6 percent was not as significant as that of both thrift and rural banks whose deposits increased by 14.4 percent and 13.9 percent, respectively.

Despite worsening non-performing loans, the banking industry managed to inch up profits. Net income after tax amounted to P13.6 billion in 2001, an increase of 16.2 percent from P11.7 billion in 2000. Commercial banks and rural banks registered increase in their profits, in contrast to the contraction in profit of thrift banks.

The industry's return on equity (ROE) moved up slowly to 3.1 percent in 2001 from 2.7 percent in 2000. Return on assets (ROA), on the other hand, remained constant at 0.4 percent since 1999.



	1999	2000	2001
PBS	9.4	8.6	5.5
KB	10.5	8.6	4.6
TB	0.1	6.4	14.4
RB	-4.3	16.2	13.9

Total capital of the industry increased by 1.6 percent, amounting to P445.4 billion in 2001 from P438.2 billion in 2000. Capital to risk assets expanded to 14.1 percent from 13.8 percent, with commercial banks at 13.6 percent, thrift banks at 17.7 percent and rural banks at 18.0 percent, well above the 10 percent statutory requirement.

Selected Indicators on the Philippine Banking System¹, 1999-2001

Amounts in Billion Pesos

Statement of Condition	1999	2000	2001
Assets	2,954.6	3,237.0	3,271.1
Quick Assets ²	612.3	686.2	734.3
Net Loans	1,651.2	1,686.7	1,665.1
Gross Loans	1,751.6	1,804.1	1,804.6
Current	1,526.3	1,526.7	1,500.7
Past Due Loans + Items in Litigation	225.2	277.4	303.9
Allowance for Probable Losses	100.4	117.4	139.5
Investments in Bonds and Other Debt Instruments - Others	168.7	251.4	254.8
Equity Investments	70.7	77.8	84.2
Underwriting Accounts	0.3	0.1	0.6
Bank Premises	94.0	102.3	99.9
Real and Other Properties Owned or Acquired (ROPOA) - Net	120.2	153.0	183.5
Deferred Income Tax	25.3	35.8	46.9
Other Assets	211.9	243.6	201.2
Liabilities	2,525.1	2,798.7	2,825.7
Deposits	1,919.5	2,085.1	2,199.5
Borrowings	361.2	424.5	359.3
Other Liabilities	244.4	289.2	266.8
Capital	429.5	438.2	445.4
Income & Expense			
Net Interest Income	97.5	90.1	91.9
Interest Income	235.9	235.2	249.0
Interest Expense	138.5	145.1	157.1
Net Other Operating Income/(Loss)	(92.4)	(84.7)	(86.6)
Other Operating Income	50.7	43.7	51.8
Other Operating Expense	106.0	109.1	115.6
Provisions	37.1	19.3	22.8
Non-Operating Income/Expense	9.2	8.3	10.0
Net Income Before Tax	14.2	13.7	15.2
Provision for Income Tax	2.4	1.9	1.6
Net Income After Tax	11.8	11.7	13.6
Selected Ratios (%)			
Capital Adequacy³			
Capital/Risk Assets	15.7	13.8	14.1
Total Liabilities/Capital	668.9	777.3	799.6
Asset Quality			
Non-Performing Loans/Gross Loans	12.8	14.3	16.4
Non-Performing Assets ⁴ /Total Assets	11.7	12.9	14.9
Gross Problematic Assets ⁵ /Total Assets	13.6	14.9	17.1
Loan Loss Provision/Gross Loans	5.7	6.5	7.7
Loan Loss Provision/Non-Performing Loans	44.9	45.4	47.2
Profitability			
Net Income After Tax/Average Equity (ROE)	2.9	2.7	3.1
Net Income After Tax/Average Assets (ROA)	0.4	0.4	0.4
Net Interest Income/Average Earning Assets ⁶ (Net Interest Margin)	4.2	3.7	3.7
Effective Spread on Loans (Yield on Loans - Deposit Cost)	5.6	5.3	5.4
Other Operating Expense+Provisions/Net Interest Income+ Other Operating Income (Efficiency Ratio)	96.6	96.0	96.3
Liquidity			
Quick Assets/Total Deposits	31.9	32.9	33.4
Gross Loans/Total Deposits	91.3	86.5	82.0
No. of PDIC Member Banks	971	939	926

Note: Computed ratios may differ from the previous annual report series due to changes in the concept adopted.

¹ Data include accounts in overseas branches of Philippine banks.

² Comprised of Cash on Hand, Cash and Other Cash Items (COCI), Due from BSP, Due from Banks, Trading Account Securities (TAS), Available Securities for Sale (ASS) and Investments in Bonds & Other Debt Instruments (IBODI) - Government.

³ In computing Capital Adequacy ratios, Capital is net of Appraisal Increment Reserves, Net Unrealized Gain on ASS, Deferred Income Tax, Goodwill and Unsecured DOSRI while Risk Assets are net of Goodwill, Unsecured DOSRI and Accumulated Market Gain excluding Accumulated Market Gain on ASS-Government. (Risk Assets = Total Assets less Non-Risk Assets. Non-Risk Assets consist of Cash on Hand, Due from BSP, Due from PCHC, TAS Investments, ASS-Govt, IBODI-Government, Bank Premises and Deferred Income Tax).

⁴ Non-Performing Assets (NPA) include Non-Performing Loans (per BSP Cir. 202) and ROPOA (Gross). If data on NPL is not available, sum of Past Due Loans & Items in Litigation is used.

⁵ Gross Problematic Assets (GPA) consist of Non-Performing Assets and Restructured Current Loans.

⁶ Earning Assets include Due from Banks, Due from BSP, TAS, ASS, IBODI, Equity Investments, Underwriting Accounts and Current Loans.

Source: Consolidated Financial Statements submitted by member banks

Contributing to Banking Stability

PDIC is authorized to extend financial assistance to a bank in danger of closing if it is determined essential in providing adequate banking services in the community or in maintaining financial stability. The grant of financial assistance is determined to be the least costly resolution of the problem bank, i.e., the cost of financial assistance is less than the cost PDIC expects to incur if the bank were to be closed.

The ultimate objective in bank rehabilitation is to ensure that depositors' interests are protected and that stability in the banking system is maintained. The year 2001 was a trying year for the Corporation. Controversies had to be hurdled in rehabilitating two commercial banks. With determination and dedication and with the cooperation of concerned parties, the Corporation made a significant mark in its failure resolution task.

Urban Bank Reopens

The reopening of Urban Bank, Inc. (UBI) in August 2001, after 16 months under PDIC receivership, was considered a milestone in PDIC history as UBI became the first closed bank under PDIC receivership that has been rehabilitated and reopened.

At the time of UBI's closure on April 26, 2000, this almost 20-year old commercial bank with 25 branches had total deposit liabilities of P8.72 billion involving 13,858 accounts, of which only five percent or P423.55 million,



involving 12,733 accounts or 92 percent of total accounts, was estimated to be insured. Simply put, P8.30 billion represented uninsured deposits still trapped in the Bank and the only way depositors could get their money back was if the bank would be rehabilitated and reopened at the soonest time possible.

Initially, the Bank of Commerce was selected from among the prospective investors to rehabilitate and reopen UBI but it withdrew its plan in February 2001, citing legal issues regarding the closure of the Bank as the reason for its withdrawal. Thus, PDIC reopened negotiations for the rehabilitation of the Bank to other prospective investors in March. It was also during this time that depositors/creditors



The ultimate objective in bank rehabilitation is to ensure that depositors' interests are protected and that stability in the banking system is maintained.

of UBI and its investment arm, Urbancorp Investments, Inc. (UII) formed the National Association of Urban Bank, Inc./Urbancorp Investments, Inc. Depositors and Creditors (NAUD). Rather than having the bank liquidated should PDIC and the Securities and Exchange Commission (SEC), UII's interim receiver, not find the rehabilitation plan submitted by any investor group viable, NAUD took the position that it would take the lead in rehabilitating the Bank. The NAUD members' objection to the liquidation of the Bank was expected since as uninsured depositors, they are ranked among the other ordinary creditors of the Bank and as such do not enjoy preference once the distribution of liquidation proceeds is implemented.

Among the banks that signified intention to rehabilitate UBI, only the Export and Industry Bank (EIB) together with NAUD submitted a rehabilitation plan to PDIC when the bidding reopened. EIB is a commercial bank incorporated in 1996 primarily to service financing requirements of exporters and small and medium enterprises (SMEs) engaged in the industrial and service sector. At the time, EIB had a network of 22 branches.

With the assistance of KPMG Laya Mananghaya, PDIC's financial advisor, the rehabilitation proposal was carefully evaluated

and subsequently approved by PDIC, SEC and BSP. The UBI was permitted to resume business as a merged bank with EIB and UII, with safety to its depositors, creditors and the general public. UBI was the surviving entity although its name was changed to EIB. The plan was found to reflect adequate capitalization, liquidity and profitable operations for the merged bank throughout the six-year rehabilitation. The depositors/creditors agreed to convert a portion of their deposits and placements aggregating P1.27 billion into common stock of the merged bank, with the balance to be paid over a three-year period.

In support of the merger, PDIC extended to the merged bank financial assistance amounting to P623.55 million, of which P423.55 million represents PDIC's claim against UBI for payment of insured deposit claims and additional amount corresponding to unpaid/unclaimed insured deposits; and P200 million in secured, four-year amortized loan.

The determination and commitment of PDIC to protect the interests of depositors and the concerted efforts of depositors/creditors resulted to the rehabilitation of the Bank. Not only were the UBI depositors granted access to their uninsured deposits, but more importantly, the confidence of the depositing public in the banking system was restored.

Rehabilitating the Philippine National Bank

The Philippine National Bank (PNB) is one of the oldest Philippine banks and the first expanded commercial bank (EKB) in the country. As of yearend 2001, PNB was ranked as the country's sixth largest EKB with P188.51 billion in assets and an extensive network of 324 branches nationwide. Its deposit base was estimated at P124.01 billion, representing more than 2 million depositors, of which estimated insured deposits was P46 billion. Nearly 14 percent of its total deposits or more than P16 billion represented deposits of the government. Also known as the "*bank for the Filipino wherever he or she may be...*", PNB has overseas remittance centers in most countries around the globe, i.e., United States, Canada, England, Spain, Netherlands, France, Germany, Austria, Italy, Hong Kong, Japan, Singapore, Malaysia and the Middle East.

By any standard, PNB is definitely a big bank, and given its size and scope, any negative news as to its financial condition would definitely create more than a stir in the banking system. Just like any other bank, PNB's financial woes began in the latter part of 1997 when the Asian financial crisis struck. Unlike other EKBs, however, the deterioration in the quality of PNB's assets, particularly loans, had

been faster and greater than the capacity of the Bank to source fresh capital. Its non-performing loan (NPL) ratio increased to 26 percent in December 1999, to as high as 42 percent in September 2000. A portion of these accounts include loans to the National Government, Government Owned and Controlled Corporations and Local Government Units which had been in PNB's books even prior to the financial crisis.

The heavy withdrawals experienced in September 2000 prompted PNB to request for liquidity assistance from BSP and PDIC. Given the Bank's profile and systemic risk it poses should it fail, loan assistance, with the intention of folding the loan into a formal



As of yearend 2001, PNB was ranked as the country's sixth largest EKB with P188.51 billion in assets and an extensive network of 324 branches nationwide.

Contributing to Banking Stability

rehabilitation plan, was extended amounting to P25 billion: P15 billion from BSP and P10 billion from PDIC. The majority shareholder of the Bank, the Lucio Tan Group, infused an additional equity of P10 billion in the Bank as a precondition to the release of the P25 billion loan. The bank was also required to submit a rehabilitation plan acceptable to both BSP and PDIC.

While some quarters questioned the assistance extended to the Bank, it is noted that there were no special favors granted to the Bank. The assistance extended was made in accordance with banking rules and regulations. The loan was fully secured with collateral value of 200 percent in many cases and interest rates charged were at market rates existing at the time.

The government, through the Department of Finance (DOF) and PDIC, has been actively pursuing efforts to revitalize the Bank. Its outstanding loan of P23.9 billion, inclusive of the P13.9 billion loan from BSP, for assumption by PDIC, was the subject of the financial component of the Term Sheet which was signed by the Government and the Lucio Tan Group (LTG) on December 19, 2001. The Term Sheet details the financial and management components of the rehabilitation program for the Bank. The Term Sheet stipulates that P7.8 billion of the P23.9 billion receivable from PNB will be converted to PNB common shares in favor of PDIC, at P40 per share as against the par value at P60 per share; P10 billion shall be offset against PNB receivable from the government; and the remaining balance at P6.1 billion will be restructured over a ten-year period with interest rate of one percent above 91-day treasury bills.

With the debt-to-equity conversion, the government's share in the ownership of the Bank will be increased from the current 17 percent to 45 percent, while the LTG shares in

the Bank will be diluted from 68 percent to 45 percent, and will equal that of the government's share. Management of the Bank will be shared between the two parties with directors and key officers to be nominated by each party.

The debt to equity arrangement being pursued by the government aims to protect its financial interest as stakeholder in the Bank. By acquiring more shares, the government, sharing management operations over the bank, will be in a better position to ensure the enhancement of the Bank's financial condition and long-term viability, as well as management reorganization, through the implementation of the approved rehabilitation program. Once the formal rehabilitation plan is in progress and the financial restructuring and Board and management reorganization of the Bank have been implemented, the government may divest its shares at any time or price, consistent with its earlier policy of privatizing the Bank, with the right of first offer and right to match given to LTG under certain terms and conditions.

Note: The Memorandum of Agreement, which was signed on May 3, 2002, contains some amendments to the Term Sheet including the conversion of the P7.8 billion debt into preferred convertible shares at P40 per share; and assignment by way of dacion of government and government-related accounts up to a maximum of P10 billion.

Responsive Client Servicing

PDIC is constantly seeking ways to minimize disruption in the lives of depositors affected by bank closures. Thus, best efforts are continuously being pursued to further reduce the depositors' waiting time before payoff operations are conducted/started to mitigate the stressful impact to depositors of being denied access to their hard-earned money deposited in their trusted banks.

A scheme was devised where deposit accounts with balances of P10,000 and below are immediately settled without detailed examination of deposit records, if the records



PDIC hopes to achieve shorter turnaround time and faster processing time which will translate to higher client satisfaction.



of the closed bank are found generally in good condition. During the year, the Corporation implemented this strategy in five closed banks, where depositors were serviced as early as three weeks after bank closure. Depositors with deposit account balances above P10,000 were paid after an average of two months from start of the initial payoff operations. In the remaining 16 banks, although payoff operations were conducted after an average of three months following a detailed examination of deposit records, this was still an improvement over previous year's performance average of four months.

To ensure faster and more efficient processing and settlement of insurance claims, PDIC came up with an automated version of the entire process: recording of claims received together with supporting documents submitted by the depositor-claimants; assignment of claim number; locating in the register of insured



deposits the names of the depositor-claimants; automatic check printing; recording the status of the claim, i.e., whether paid or unpaid; and generating monitoring reports on claims received, processed and paid. Aptly called the Computerized Claims and Pay-off Operations System or the CCPOS, the system was implemented in most of the banks with payoff operations started during the year. CCPOS is highly portable that it can be downloaded to a laptop for use during on-site payoff operations and uploaded to the server during payoff recess. PDIC has also started the development of the Claims Tracking System (CTS) that will monitor the real-time status of claims that still remain unpaid either due to incomplete submission of documentary requirements or deficient documents; or for further verification before the filed claims can be cleared for payment. Once operational, the CTS will enable PDIC to provide a quick response to depositors' queries about the status of their claims and the expected date of release of payment by PDIC.

To achieve greater efficiency during payoff operations and for ease in monitoring, the various existing systems will have to be integrated. In-house programmers have started data conversion to move available data to a single database

structure which will include information on both filed and unfiled claims. The programs for the integrated system will be developed using Visual Basic and Microsoft SQL server.

For depositors who opt to file their claims at the PDIC home office in Makati or personally follow-up the status of their claims, PDIC has full-time representatives at the claims counter lobby who are equipped to answer all claims-related queries. Queries through the PDIC website www.pdic.gov.ph can also be made.

In the area of liquidation of assets of closed banks, the Asset Management Group (AMG) created in mid 2000 became fully operational during the year. Marketing strategies to speed up disposal of various closed banks' properties were explored. These include the conduct of Internet advertising of some of PDIC's inventory of real estate properties. Bodega sale was also resorted to for closed banks with large inventory of furniture, fixtures and equipment. Broker accreditation was also started during the year to assist AMG in selling real properties and bank-owned premises. These strategies resulted to P106.7 million worth of properties converted to cash, almost seven times higher than previous year's P15.6 million.

With the full operationalization of the AMG and to decongest existing work area of the Claims, Receivership and Liquidation Sector and provide for an environment conducive to productivity, additional office space was leased to house the AMG and some units under the R/L Group.

With these innovations and improvements, PDIC hopes to achieve shorter turnaround time and faster processing time which will translate to higher client satisfaction.

Pursuing Initiatives For Reforms

While globalization opened the doors to vast opportunities for local banks, the liberalization of markets also exposed the system's back door to practices that lead to greater risks due to increased competition. The Asian crisis in 1997 has brought to the fore weak corporate governance in banks as one of the factors that led to the collapse of some banks.

Reforms in the country's banking system have been initiated by the Bangko Sentral ng Pilipinas (BSP), the primary regulator, taking different dimensions from tightening of capital requirement to setting of regulatory standards patterned after international best practices. The General Banking Law of 2000 was enacted to enhance the supervisory capability and enforcement powers of the BSP, raise prudential standards to international norms, and foster greater competition in the banking system. It also provides the Monetary Board more teeth in the exercise of its regulatory powers.

While reforms towards enhanced supervision and governance in the system to meet the challenges of globalization are instituted, compliance of banks to safe and sound banking practices is equally necessary to bring about responsible banking. Moreover, regulators/supervisors should be vigilant in their monitoring function, ensuring compliance by banks to set rules and regulations.

On the part of PDIC, initiatives are continuously being pursued to further strengthen the Corporation in implementing its mandate. Amendments to the PDIC Charter were drafted to provide for a stronger PDIC, not only as insurer but also in making it an effective partner of the primary regulator in maintaining confidence and stability in the banking system.¹

The Corporation is also bent on pursuing cases against erring officials of closed banks to preserve the integrity of the banking system. To accomplish this objective, a Bank Fraud Investigation Department was created. During the year, investigation of 21 bank fraud cases reportedly committed by officers and employees of 16 closed banks were conducted. Twelve (12) criminal complaints were filed with the Department of Justice Task Force on Financial Fraud against former directors, officers and employees of 11 closed banks. Of the 12 cases, three were filed in coordination with the BSP Special Investigation Office.

Since its creation in mid 2000, the Department has filed 33 criminal complaints against former officers and employees of 16 closed banks. Of these, 21 are now in court in various hearing stages.

¹ Proposed amendments to the PDIC Charter are contained in Senate Bill No. 2009 sponsored by Senator Ramon B. Magsaysay, Jr. and in House Bill No. 255 sponsored by Congressman Jesli A. Lapus.



The PDIC-NBI Entrapment Story

In April 2001, Mr. Ariffin Morad, Senior Vice President and Head of Operations Group of Maybank Philippines wrote to PDIC requesting for information on the status of Citizen Bank – Rural Bank of San Pascual (Batangas). The information was requested in connection with a certain Mr. Wenzel Stephen Ligot, who was transacting business with Maybank Klang Branch in Malaysia. Mr. Ligot was allegedly maintaining five (5) Certificates of Time Deposit (CTDs) in the Rural Bank of San Pascual with a total amount of US\$15 million. At the time of the inquiry, the rural bank had been under PDIC receivership since July 24, 2000.

On May 10, 2001, Mr. Yuseri Yusoff, President of Maybank, Philippines, in an e-mail, requested confirmation of a letter dated on the same day allegedly sent by PDIC to Maybank guaranteeing payment of the CTDs amounting to US\$15 million. Copy of the letter was attached, signed by two (2) alleged PDIC officers-Johnnielyn P. Conti and Romualdo Tumambing. Another letter from the Credit Services Department of Maybank, Philippines was also received by PDIC requesting confirmation of authenticity of the issued CTDs.

The investigation conducted by PDIC showed that the five (5) CTDs in the name of Mr. Ligot were fake certificates. The Rural Bank of San Pascual (Batangas) had no outstanding dollar CTDs in the name of Mr. Ligot. In fact, the bank had no foreign currency deposit units at all. The letter of confirmation apparently signed by the two alleged PDIC officers was written on a fake PDIC stationery. Ms. Conti and Mr. Tumambing were retained employees of the closed Rural Bank of San Pascual. In their

affidavits, the aforementioned employees related that they signed the letter upon the “cajolery, persuasion and assurances” of their boss, Lino Pantaleon R. Zara, former president of the said closed bank. A formal reply to Maybank was sent on May 21.

Shortly thereafter, PDIC received another letter from a firm in Bangkok requesting confirmation of the existence of the dollar CTDs. Apparently, the CTDs were offered as security and/or credit enhancement by Mr. Ligot. The case was brought to the NBI and a decision to entrap the suspects was made. A meeting was scheduled between PDIC and Mr. Ligot on July 10, 2001. In said meeting, the suspect was advised to bring the original copies of the alleged dollar CTDs. PDIC coordinated with the Anti-Fraud Division of the NBI to carry out the entrapment operation. In the morning of the scheduled meeting, Mr. Ligot and three other companions arrived and upon presentation of the original copies of the alleged CTDs, the NBI agents announced the arrest. They were brought to the NBI office for further interrogation.

The accused were charged with “Illegal Possession/Use of False Treasury Notes and Other Instruments of Credit (Article 168 of the Revised Penal Code)”. The charge carries an imposable penalty of imprisonment from six months and one day to six years.

In a resolution, the City Prosecutor’s Office (of Makati City) recommended that the charges against Mr. Wenzel Stephen L. Ligot, his two other companions and the President of RB San Pascual be maintained. The case is now pending at the Regional Trial Court, National Capital Judicial Region, Branch 146.

Strengthening Corporate Governance

Hand in hand with enhancing processes and procedures in the operations sectors, corresponding improvements are simultaneously being made in the support services sector, e.g., human resource management and development, finance, information technology and dissemination, and establishment of linkages. Enhancing overall institutional capability will enable the Corporation to meet fast-changing demands and provide more efficient service.



Human Resource Management and Development

To sustain the momentum set in the previous years, more training programs directed at providing skills required to improve current job performance as well as future job tasks/responsibilities were conducted. Other training programs offered focused on enhancing conceptual and human relations skills and leadership competencies, as well as programs on areas addressing the importance of shared understanding of corporate norms, values and attitudes with the objective of promoting a better organizational culture. Ten seminar sessions on values enhancement have been conducted during the year, bringing the total to 17 sessions conducted for the past two years. About 92 percent of total PDIC employees have benefited from the seminar.

The Corporation spent a total of P6.87 million for participation in both domestic and foreign training seminars/conferences benefiting 1,611 participants. Approximately 64 percent of total cost was utilized for domestic training, benefiting 1,585 participants. The remaining 36 percent, sourced from the Asian Development Bank and the World Bank grants, was used to fund

participation in foreign training programs/seminars, conferences and study visits.

To better understand prevailing issues on the economy relevant to the operations of PDIC, five discussion series were conducted, where experts in the fields of economics and banking served as resource speakers. Discussion series held focused on: How Monetary Policy Works by Dr. Mario B. Lamberte of the Philippine Institute of Developmental Studies (PIDS); Fiscal Policy: An Overview by Dr. Emilio T. Antonio, Jr. of the University of Asia and the Pacific (UAP); Microfinance by Mr. Ricardo P. Lirio of the BSP; Foreign Exchange Rate: Issues and Trends by Dr. Johnny Noe Ravalo of the Bankers Association of the Philippines (BAP); and Anti-Money Laundering Act of 2001 (Republic Act No. 9160) by Atty. Juan de Zuñiga, Jr., Legal Counsel of BSP. A total of 184 selected officers and staff, mostly in the operations group, participated in the discussion series.

To further motivate employees to render effective and quality performance and instill excellence in public service, the PDIC Program on Awards and Incentives for Service Excellence (PDICPRAISE) was developed, replacing the

Employees Suggestions and Incentive Awards System (ESIAS). Approved by the PDIC Board during the year, PDICPRAISE aims to encourage, give recognition to and reward employees, individually and in groups, for their innovative ideas, inventions, discoveries, superior accomplishments, heroic deeds, exemplary behavior; and for extraordinary acts or services in the public interest and other personal efforts which contribute to the efficiency, economy and improvement in government operations, ultimately leading to organizational productivity. Under the scheme, both monetary and non-monetary incentives shall be awarded. For proper development, administration, monitoring and evaluation of the PDICPRAISE, a committee was created for the purpose.

Information Dissemination

In line with the government's thrust on maximizing the use of information technology to enhance operations, PDIC officially uploaded its website, www.pdic.gov.ph, on January 6, 2001. The facility is designed to enhance PDIC's services and dissemination of information to the public. Through the PDIC website, the public can learn more about PDIC: its role, vision, mission and beliefs, as well as its organizational structure and profile. Other information available in the website include basic banking laws including the PDIC Charter, member banks, industry statistics and regulatory issuances, as well as current developments involving the Corporation. Also accessible through the website are pertinent documents required in filing of claims and schedules of claims settlement operations in closed banks; illustrative cases on the computation of insured deposits in the form of question and answer; and claim forms which can be downloaded and printed for depositor-claimants to. The PDIC Annual Report, research papers, and speeches are also posted in the website. Queries or complaints and corresponding PDIC responses can also be sent through the website.

In order to strengthen public knowledge on deposit insurance and increase depositor confidence in the banking system, as well as bring PDIC closer to the public, the Corporation embarked on an active information campaign in collaboration with the Philippine Information Agency. For the first time since PDIC's creation in 1963, a 45-second TV infomercial was aired in leading TV and cable networks for a limited period, supplemented by four radio infomercials, also aired for a limited duration.

Technical Assistance Grants

The capacity-building activities under the World Bank (WB) and the Asian Development Bank (ADB) Technical Assistance (TA) Grants ended after more than three years of implementation.

The ADB TA started in July 1998 to improve PDIC's prudential supervision and regulation of banks in order to better protect bank depositors. The TA involved the engagement of foreign and local consultants who rendered expertise in the following areas: bank supervision, bank financial and risk management, legal management, information systems, and human resource management. Specific outputs of the TA included the draft amendments to the PDIC Charter; updated Information Systems Strategic Plan and detailed specifications of new systems identified for implementation; proposed revisions to the PDIC Report of Examination format; various options for restructuring of the Corporation; and recommendations for improvements in the management of problem banks.

The World Bank grant, on the other hand, started in August 1998 complementing the ADB TA. Activities focused on improving PDIC claims settlement, receivership and liquidation (CRL) systems, processes and procedures, and records management, including the preparation of corresponding manuals. Under the same grant, a legal expert was also engaged to assist in refining

the proposed amendments to the PDIC Charter. Legal assistance was also sought to enhance primarily the effectiveness of the Corporation in the implementation of its receivership and liquidation functions.

Through the grants, the Corporation was able to sustain its active participation in South East Asian Central Banks/Asia Pacific Economic Cooperation courses and in the series of meetings of the Financial Stability Forum (FSF) Working Group on Deposit Insurance, where the Philippines is one of 12 member countries. During the year, 23 PDIC officers participated in various international training seminars, workshops, and conferences on deposit insurance, bank supervision, and related areas, funded under the TA grants.

A memorandum of agreement was entered into between PDIC and the Policy, Training and Technical Assistance Facility II (PTTAF II) of the Canadian International Development Agency (CIDA), where activities to enhance risk management shall be undertaken in 2002. The first phase of the project involved the study visit to the Canada Deposit Insurance Corporation (CDIC) of three PDIC officers in the last quarter of 2000.

Establishing Linkages

Senior officials from the Indonesian Ministry of Finance and the Indonesian Bank Restructuring Agency (IBRA) and a high ranking officer of the Bank of Tanzania-Deposit Insurance Board (DIB) visited PDIC on separate

occasions to learn of deposit insurance practices and experiences in the Philippines.

A two-day (June 14-15) briefing on PDIC deposit insurance practices was conducted for four senior officials from the Ministry of Finance and IBRA, i.e., Messrs. Chris Lahino, Salusta Satria, Ary Zulfikar and Poltak Tobing. The study visit was made upon request of the Indonesian Ministry in preparation for its plan to establish its own deposit insurance institution to be called the Indonesia Deposit Insurance Corporation.

Mr. Josiah M. Munazi, Deputy Director of the Deposit Insurance Board of the Bank



of Tanzania also made a twelve-day study visit in November to gain insights on PDIC's organizational structure and deposit insurance scheme. Aside from being briefed on the various operations of the PDIC, Dir. Munazi was also able to observe the conduct of initial claims settlement operations in the Rural Bank of Bugallon and Rural Bank of Mangatarem, both in Pangasinan.

The year 2001 also marked the launching of the PDIC Training Institute's outreach training seminars to assist in the institutional capacity building of rural and thrift banks located in the regions. In collaboration with the Bankers' Institute of the Philippines, Inc. (BAIPhil), seminar sessions on "Your Bank and PDIC: Partners Towards Productivity and Progress" were held in Iloilo City in September and Baguio City in December. Discussion focused on PDIC's structure and mandate; events and developments within the organization; management trends and issues affecting the banking sector, among others. A total of 92 participants, composed mostly of officers and staff of rural banks and representatives from cooperatives/federations and academe, benefited from the outreach seminars.



People, Places and Events



PDIC turns over P1 billion check to the National Government representing advance cash dividends for the year 2001 from PDIC's income on investments



Father Alton Fernandez SDB blesses the new PDIC Receivership and Liquidation office located across the Home Office



The first run of the PDIC and PHILDICEO-sponsored Public Sector Unionism Workshop



Proud participants to the PDIC Training Institute's first outreach seminar on "Your Bank and PDIC: Partners Towards Productivity and Progress"



Department of Finance Secretary Jose Isidro Camacho turns over to National Treasurer Sergio Edeza a check amounting to P1.05 billion representing surplus dividends on the claims of the National Government from the liquidation of PISO Bank



Dr. Emilio Antonio of the University of Asia and the Pacific awarded token of appreciation after speaking before PDIC top management and selected personnel during PDIC's Economic Briefing Seminar on Fiscal Policy

Bank of Tanzania's Josiah Munazi is briefed by PDIC Deputy Receiver Sandra Dabi during his trip to the closed Rural Bank of Mangatarem (Pangasinan) as part of a 12 day study-visit



PHILDICEO (employees union) officials and PDIC management during the ceremonial ribbon-cutting and inauguration of the union office



High school students from St. Scholastica's College visit PDIC to get a glimpse of the Corporation's IT office



Employees strut on the ramp for the first PDIC Uniform Fashion Show



Hospicio de San Jose Administrators are all smiles as President Norberto C. Nazareno and Executive Vice President Rosalinda U. Casiguran turn over PDIC's P50,000.00 donation



PDIC employees' children enjoying Christmas treats with their favorite mascots

Comparative Statements of Condition					
(In Thousand Pesos)					
				Inc (Dec) 2001-2000	
	1999	2000	2001	Amount	%
ASSETS					
Current Assets					
Cash on Hand and In Banks (Note 2)	24,646	357,043	182,145	(174,898)	(49.0%)
Short-Term Investments (Note 3)	696,698	1,896,174	1,531,699	(364,475)	(19.2%)
Interest Receivable from Investments	508,045	600,954	709,110	108,156	18.0%
Other Current Assets (Note 4)	39,464	406,869	407,894	1,025	0.3%
Total Current Assets	1,268,853	3,261,040	2,830,848	(430,192)	(13.2%)
Long-Term Investments (Note 5)					
Government Securities-Treasury Bonds (Dollar)	277,129	343,754	355,472	11,718	3.4%
Government Securities-Treasury Notes/Bonds (Peso)	20,545,974	21,577,502	24,503,546	2,926,044	13.6%
Total Long Term Investments	20,823,103	21,921,256	24,859,018	2,937,762	13.4%
Financial Assistance to Banks (Note 6)	223,117	20,471,727	25,793,130	5,321,403	26.0%
Due from BSP-Treasury (Note 7)	0	0	4,165,766	4,165,766	
Subrogated Claims Receivable (Note 8)	6,559,074	9,696,018	10,764,087	1,068,069	11.0%
Less: Allowance for Losses on Subrogated Claims Receivable	4,440,064	5,163,625	5,998,224	834,599	16.2%
Subrogated Claims Receivable - Assigned	224,307	474,434	447,085	(27,349)	(5.8%)
Net Subrogated Claims Receivable	1,894,703	4,057,959	4,318,778	260,819	6.4%
Fixed Assets (Note 9)	230,958	228,489	235,449	6,960	3.0%
Other Assets (Note 10)	842,897	793,481	840,862	47,381	6.0%
TOTAL ASSETS	25,283,631	50,733,952	63,043,851	12,309,899	24.3%
LIABILITIES, DEPOSIT INSURANCE FUND AND CONTINGENT SURPLUS					
LIABILITIES					
Current Liabilities (Note 11)	280,494	1,587,636	813,637	(773,999)	(48.8%)
Long-Term Liabilities (Note 12)	1,569,600	21,468,200	30,071,329	8,603,129	40.1%
Other Liabilities (Note 13)	20,704	482,513	728,807	246,294	51.0%
TOTAL LIABILITIES	1,870,798	23,538,349	31,613,774	8,075,424	34.3%
DEPOSIT INSURANCE FUND					
Permanent Insurance Fund (Note 14)	3,000,000	3,000,000	3,000,000	0	0.0%
Estimated Insurance Losses (Refer to Note 1)	20,110,315	23,893,071	28,132,772	4,239,701	17.7%
Donated Surplus	507	507	507	0	0.0%
Retained Earnings	301,563	301,585	296,352	(5,233)	(1.7%)
TOTAL DEPOSIT INSURANCE FUND	23,412,385	27,195,163	31,429,631	4,234,468	15.6%
CONTINGENT SURPLUS	448	440	447	7	1.6%
TOTAL LIABILITIES, DEPOSIT INSURANCE FUND AND CONTINGENT SURPLUS	25,283,631	50,733,952	63,043,851	12,309,899	24.3%

Comparative Statements of Income and Expense

(In Thousand Pesos)

				Inc(Dec) 2001-2000	
	1999	2000	2001	Amount	%
GROSS ASSESSMENT (Note 15)	3,487,203	3,758,122	4,151,354	393,232	10.5%
Less: EXPENSES					
Provision for Insurance Losses	5,462,376	4,506,541	5,114,300	607,759	13.5%
Cost of Bank Rehabilitation	806,598	0	0	0	-
Operating Expenses (Note 16)	453,849	682,525	653,527	(28,998)	(4.2%)
TOTAL EXPENSES	6,722,823	5,189,066	5,767,827	578,761	11.2%
Excess of Expenses over Assessment	(3,235,620)	(1,430,944)	(1,616,473)	(185,529)	13.0%
INCOME FROM INVESTMENTS (net of tax)					
Treasury Notes/Bonds (Peso)	2,607,180	2,864,493	3,025,680	161,187	5.6%
Treasury Bills	22,880	44,171	145,126	100,955	228.6%
Treasury Bonds (Dollar)	26,066	26,254	32,747	6,493	24.7%
Time Deposit	16,204	20,486	24,165	3,679	18.0%
Regular and Special Savings Deposit	7,477	3,613	20,654	17,041	471.7%
Gain on Sale of Investments	56,646	(81)	294	375	(463.0%)
TOTAL INCOME FROM INVESTMENTS (net of tax)	2,736,453	2,958,936	3,248,666	289,730	9.8%
NET INCOME FROM FINANCIAL ASSISTANCE	508,870	219,625	267,096	47,471	21.6%
GAIN ON SALE OF FIXED ASSETS	0	0	0	0	-
EXTRAORDINARY GAIN - DIVIDEND INCOME (SURPLUS)	0	0	65,772	65,772	-
OTHER INCOME (Note 17)	3,444	92,678	5,525	(87,153)	(94.0%)
	3,248,767	3,271,239	3,587,059	315,820	9.7%
Net Income (Loss) Before Foreign Currency Revaluation	13,147	1,840,295	1,970,586	130,291	7.1%
Gain (Loss) in Foreign Currency Revaluation	40,919	159,730	29,467	(130,263)	(81.6%)
NET INCOME	54,066	2,000,025	2,000,053	28	0.0%

Note: Prior years' presentation was adjusted for comparison.

Comparative Statements of Cash Flows

(In Thousand Pesos)

	1999	2000	2001	Inc (Dec) 2001-2000	
				Amount	%
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from member banks for assessments	3,483,882	3,753,910	4,149,931	396,021	10.5%
Income from savings deposits	9,432	5,169	25,762	20,593	398.4%
Collection of interest on financial assistance	36,683	702,927	1,660,071	957,144	136.2%
Income from investments	2,769,155	2,983,788	3,276,174	292,386	9.8%
Collection of various receivables	7,291	119,758	56,864	(62,894)	(52.5%)
Collections from subrogated claims	892,887	1,441,334	342,247	(1,099,087)	(76.3%)
Miscellaneous income	1,728	879	66,780	65,901	7497.3%
Various inflows	742	340,774	568,502	227,728	66.8%
Expenses incurred for R/L of closed banks	(4,287)	(7,717)	(632)	7,085	(91.8%)
Payment to suppliers	(91,997)	(489,240)	(224,432)	264,808	(54.1%)
Payment to employees	(159,039)	(271,971)	(334,233)	(62,262)	22.9%
Final taxes and other prepaid expenses	(100,695)	(106,209)	(108,295)	(2,086)	2.0%
Payment of interest on BSP loans	(128,576)	(526,621)	(1,908,638)	(1,382,017)	262.4%
Payment of insured deposits	(3,136,144)	(4,577,180)	(1,761,496)	2,815,684	(61.5%)
Various outflows	(252,497)	(154,249)	(164,204)	(9,955)	6.5%
Net Cash Provided by Operating Activities	3,328,565	3,215,352	5,644,401	2,429,049	75.5%
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from matured investments	7,122,557	6,789,977	12,244,833	5,454,856	80.3%
Gain from sale/exchange of investment	56,645	(160)	294	454	(283.8%)
Collection of financial assistance granted to member banks	203,916	7,132,822	7,735,889	603,067	8.5%
Investment made by BSP FAO PDIC	0	0	0	0	-
Investments	(10,760,270)	(8,662,962)	(14,820,132)	(6,157,170)	71.1%
Financial assistance granted to member banks	0	(27,000,000)	(32,540)	26,967,460	(99.9%)
Proceeds from sale of fixed assets	0	0	0	0	-
Capital expenditures	(71,564)	(5,382)	(15,985)	(10,603)	197.0%
Net Cash Provided by Investing Activities	(3,448,716)	(21,745,705)	5,112,359	26,858,064	(123.5%)
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowings from BSP for financial assistance	0	19,898,600	(8,181,658)	(28,080,258)	(141.1%)
Payment of loans to CB-BOL/BSP	(101,400)	0	0	0	-
Asian Development Bank (ADB) grant	507	0	0	0	-
Payment of dividend to National Government	(8,816)	(1,035,850)	(2,750,000)	(1,714,150)	165.5%
Prior Period Adjustment to Retained Earnings	0	0	0	0	-
Net Cash Provided by Financing Activities	(109,709)	18,862,750	(10,931,658)	(29,794,408)	(158.0%)
Effect of Foreign Currency Revaluation	32,867	0	0	0	-
Net Increase in Cash	(196,993)	332,397	(174,898)	(507,295)	(152.6%)
Cash and Cash Equivalents at Beginning of Year	221,639	24,646	357,043	332,397	1348.7%
Cash and Cash Equivalents at End of Year	24,646	357,043	182,145	(174,898)	(49.0%)
Net Increase in Cash	(196,993)	332,397	(174,898)	(507,295)	(152.6%)

Notes:

a. Prior years' presentation was adjusted for comparison.

b. Cash balance includes all cash on hand and cash in bank balances. Time deposits and special savings deposits are classified as investments.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Basis for Recording**

These financial statements are presented in accordance with the generally accepted accounting principles (GAAP). These statements do not include assets and liabilities of closed banks where the Corporation acts as receiver or liquidator.

b. **Assessment**

Member banks are assessed a maximum of 1/5 of 1 percent of their total deposit liabilities per annum, collected on a semestral basis. The amount of assessment for the first semester is based on the average of deposit liabilities as of end of March and June, payable by banks not later than July 31 of the same year. For the second semester, the amount of assessment is based on the average of deposit liabilities as of end of September and December, payable not later than January 31 of the succeeding year. Late payment of assessment is subject to interest and penalty while failure or refusal by any member bank to pay any assessment due may lead to the termination of its insured status.

c. **Financial Assistance**

The Corporation may grant financial assistance to a member bank in danger of closing if there is a viable rehabilitation plan, strong management and full restoration of capital. The cost to PDIC of such assistance, however, should be less than the cost PDIC expects to incur if the bank were to be closed. Financial assistance may be in the form of loans, purchase of assets, assumption of liabilities or placement of deposits in the recipient bank.

d. **Investments**

Unutilized funds are invested in treasury bills, notes and bonds (both peso and dollar) and are recorded at cost. Income from these investments is accrued over the term of the instrument. Final taxes paid upon placement are booked as Prepaid Taxes and amortized over the term of the placement.

e. **Dollar-Denominated Assets**

Dollar-denominated assets are carried at the value as of transaction date or previous year's end rate and revalued at the applicable exchange rate at year end.

f. **Insurance Reserves**

The Corporation records an estimated loss for banks not yet closed but identified through a monitoring process as likely to fail in the future. This finding of probability of closure is the basis in determining existence of a loss contingency that triggers loss recognition as defined in Statement of Financial Accounting Standards (SFAS) No. 7. The amount of estimated loss is determined on an annual basis and reflects the best estimate as to adequacy of reserves against future losses.

Booked is a general provision called Estimated Insurance Losses intended to adequately cover anticipated losses from member banks identified to have high probabilities of closure where insurance payments may exceed recovery of assets during liquidation. Prior to CY 1996, estimates of the amount of annual provision were based mainly on past recovery/loss rate on subrogated claims. The methodology of estimating insurance losses was implemented in CY 1996 and modified every year thereafter to suit current conditions. The methodology involves three basic steps: 1) assessment of risk of bank closures using as basis a watchlist which identifies and categorizes banks into degrees of probability of failure, 2) estimating the historical recovery/loss rates on subrogated claims, and 3) application of rate of loss on live banks identified in step 1 as having probability of closure, using a simple nominal computation of 46 percent for rural banks, 22 percent for thrift banks and 20 percent for commercial banks. Effective CY 2000, Estimated Insurance Losses account was classified as capital under the Deposit Insurance Fund.

NOTES TO FINANCIAL STATEMENTS

g. Allowance for Losses on Subrogated Claims Receivable/Accounts Receivable-Receivership and Liquidation

Subrogated Claims Receivable (payments made by the Corporation on insurance claims, see Note 8) is being provided allowance which is estimated using the rates of losses on each closed bank. This is presented as a reduction from the receivable.

Expenses incurred by the Corporation in performing its receivership and liquidation function are recoverable from closed banks (booked as Accounts Receivable-Receivership and Liquidation, see Note 10) and are provided an allowance for probable losses computed at 70 percent of total receivable outstanding at year end. Effective January 1, 2001, receivables arising from receivership and liquidation expenses incurred are recorded off-books. A separate system is being implemented to monitor receivables from closed banks.

h. Net Assessment Income/Loss

This account represents insurance premium collected from member banks minus (a) operating costs and expenses of the Corporation, including interest on PDIC borrowings, (b) provision for uncollectible accounts and provision for insurance losses, net of loss carry forward.

i. Inventories

Inventories of supplies and materials, decals and standees, postage stamps and documentary stamps are recorded on a first-in first-out (FIFO) method.

j. Fixed Assets

Fixed assets are carried at cost and depreciated using the straight line method as follows:

Computers, Furniture, Fixtures, Equipment	3 years
Vehicles	5 years
Building	25 years

k. Employee Benefit Plan

The Corporation has Provident Fund covering all employees. Each employee has a choice to contribute 5 percent of monthly basic salary or one-time contribution of P1,000.00 to each fund while the Corporation puts in a total of 45 percent. Corporate contribution is vested to the employee after completing a year of service in the Corporation.

l. Accumulated Net Income Account

Recording of prior period adjustments is made in compliance with SFAS No. 13. The Corporation considers as material prior period adjustments amounting to P1.0 million.

NOTE 2 - CASH ON HAND AND IN BANKS

This account includes the following:

	2000	2001
	(In Thousand Pesos)	
Cash on Hand ^{a/}	2,015	1,817
Cash in Bank -Principal Accounts ^{b/}	4,158	6,863
Cash in Bank - Settlement of Claims ^{c/}	19,440	29,943
Cash in Bank –Transferee Banks ^{d/}	331,213	143,463
Due from BSP	217	59
Total	357,043	182,145

- ^{a/} Includes Checks and Other Cash Items amounting to P1.71 million received at the close of office hours on the last business day of CY 2001.
- ^{b/} Refers to payroll and corporate operating funds; current account maintained in one (1) commercial bank granted financial assistance in CY 1999; and revolving fund for the Claims, Receivership and Liquidation Sector of PDIC.
- ^{c/} Funds for payment of insured deposits whereby disbursing officers of the Corporation are deployed to the closed banks to service depositors.
- ^{d/} Refers to funds for payment of insurance claims of depositors of closed banks where the Corporation enters into an agreement with Land Bank of the Philippines (LBP) branches within the vicinity of the closed banks and transfers funds to the said LBP branch(es) for the latter to undertake the actual payoff.

NOTE 3 - SHORT TERM INVESTMENTS

This account includes the following:

	2000	2001
	(In Thousand Pesos)	
Treasury Bills ^{a/}	1,377,489	569,603
Dollar Time Deposit ^{b/}	468,685	893,896
Special Savings Deposit	50,000	68,200
Total	1,896,174	1,531,699

- ^{a/} With terms ranging from 85 to 364 days and yield of 9.175 percent to 14 percent.
- ^{b/} With terms ranging from 22 to 182 days and yield of 2.6 percent to 4.07 percent.

NOTE 4 - OTHER CURRENT ASSETS

This account includes the following:

	2000	2001
	(In Thousand Pesos)	
Accrued Interest on Financial Assistance ^{a/}	357,275	392,159
Prepaid Expenses ^{b/}	28,503	4,470
Inventory of Supplies and Materials ^{c/}	6,586	8,876
Accounts Receivable ^{d/}	13,713	1,673
Due from Officers and Employees	190	82
Others	602	634
Total	406,869	407,894

- ^{a/} See Note 6.
- ^{b/} Includes prepaid taxes on treasury bills, P1.43 million; prepaid property/health insurance, P2.53 million; others, P0.51 million.
- ^{c/} Includes semi-expendable supplies and material booked under Inventory account in compliance with Commission on Audit (COA) regulations.
- ^{d/} Cash advances of officers and staff for training and travel expenses.

NOTE 5 – LONG TERM INVESTMENTS

PDIC's long-term investments are composed of peso and dollar-denominated treasury bonds.

	2000	2001
	(In Thousand Pesos)	
Government Securities – Global Bonds (Dollar)	343,754	355,472
Government Securities – Treasury Bonds (Peso)	21,577,502	24,503,546
Total	21,921,256	24,859,018

NOTE 6 - FINANCIAL ASSISTANCE TO BANKS

As of yearend 2001, total outstanding balance of financial assistance (FA) extended by PDIC amounted to P25.79 billion, of which P25.35 billion was extended to four (4) commercial banks, three (3) thrift banks and two (2) rural banks; and the balance of P0.45 billion represents swap between BSP's receivable from various rural banks and PDIC's subrogated claims for the implementation of the Countryside Financial Institutions Enhancement Program (CFIEP). Net increase in the amount of outstanding FA balance from previous year's P20.47 billion was due to the following: COA's recommendation to record in the PDIC books previously off-book transactions amounting to more than P12 billion involving four (4) banks extended FA between 1997 and 1999; extension of new FA to three (3) banks amounting to P0.66 billion; and full settlement by two (2) banks of their outstanding balance amounting to P8.0 billion.

Note: Prior to 2001, COA's opinion was that financial assistance transactions that involve funding arrangements with BSP should not be included in PDIC books. However, COA reversed its original position and recommended recording of said transactions in PDIC's balance sheet starting August 2001.

NOTE 7 - DUE FROM BSP – TREASURY

Previously recorded off-book, this account represents funds managed by BSP in behalf of PDIC with the intention of accumulating earnings enough to pay annual interest and principal of loans obtained from BSP. Proceeds of the loan were used to finance assistance extended to two (2) banks in 1997 and 1999 (see Notes 6, 12 and 13).

NOTE 8 - SUBROGATED CLAIMS RECEIVABLE

This is the balance of amount paid by PDIC to insured depositors of closed banks, recoverable from closed banks upon their liquidation. On the other hand, the Subrogated Claims Receivable Assigned account represents the amount of subrogated claims assigned to BSP in exchange for the notes receivable from banks that availed of the CFIEP administered jointly by PDIC, LBP and BSP. Receivable from LBP under Note 6 is due at the end of 7 years from the date of asset swap and collection thereon will be used to redeem the subrogated claims assigned to BSP.

This account is composed of the following:

	2000	2001
	(In Thousand Pesos)	
Total Subrogated Claims Receivable	10,826,939	12,394,298
Less: Recoveries	1,130,921	1,630,211
Subrogated Claims Receivable (Net)	9,696,018	10,764,087
Less: Subrogated Claims Receivable Assigned	474,434	447,085
Allowance for Losses	5,163,625	5,998,224
Net	4,057,959	4,318,778

For CY 2001, 18 rural banks were ordered closed with estimated insured deposits amounting to P760.05 million involving 94,001 accounts.

NOTE 9 - FIXED ASSETS

	2000	2001
	(In Thousand Pesos)	
Land ^{a/}	93,511	93,511
Building ^{a/}	149,162	149,162
Furniture, Fixtures, Equipment and Books	93,362	106,042
Total	336,035	348,715
Less: Allowance for Depreciation ^{b/}	107,546	113,266
Net Book Value	228,489	235,449

^{a/} Includes properties located in Pasong Tamo (Land - P26.21 million and Building- P146.72 million) and Pasay City (Land – P67.31 million and Building – P2.44 million).

The property in Pasong Tamo was obtained by virtue of a Deed of Conditional Sale between the Asset Privatization Trust (APT) and PDIC. The purchase price of P33.95 million was put in escrow account since there were still uncanceled liens and encumbrances on the title of the property at the time of the execution of the Deed of Conditional Sale. The cancellation of the liens on the TCT depends on the decision of a case still pending in court. Until the said condition is fulfilled, PDIC is not entitled to the issuance of a new title in its name.

The property in Pasay City was acquired from the closed Banco Primero Development Bank in 1999.

^{b/} Depreciation expense for 2000 and 2001 amounted to P13.62 million and P13.50 million, respectively.

NOTE 10 - OTHER ASSETS

This account includes the following:

	2000	2001
	(In Thousand Pesos)	
Accounts Receivable:		
Financial assistance to various banks which were subsequently closed ^{a/}	158,084	158,096
Various Closed Banks-Receiverhip and Liquidation Expenses ^{b/}	268,253	220,098
Provident Fund ^{c/}	40,957	40,457
Other Banks-Assessment Deficiencies ^{d/}	12,816	10
Sub-total	480,110	418,661
Deferred Charges ^{e/}	575,368	674,783
Others ^{f/}	1,559	1,613
Total	1,057,037	1,095,057
Less: Allowance for Probable Losses	263,556	254,195
Net	793,481	840,862

^{a/} These are financial assistance granted to various banks which failed to recover and eventually closed. A 100 percent allowance is provided because these closed banks do not have enough assets to pay their obligations.

^{b/} Expenses incurred by the Corporation in performing its mandate as receiver and liquidator of closed banks. In CY 2001, a total of P46.03 million was recovered from the liquidation of PISO Bank (P27.82 million) and Development Bank of Rizal (DBR) (P1.53 million); and the rehabilitation of Urban Bank (P16.68 million). An allowance of 70 percent of the outstanding balance is provided in view of the low recovery rate on closed banks. Effective January 1, 2001, however, receivables from closed banks arising from receivership and liquidation expenses are no longer reflected in the books. A separate system is in place to monitor the receivables from closed banks (see Note 1g).

^{c/} Represents advances for the provident fund (P2.0 million), housing fund (P7.0 million) and car fund (P31.46 million).

^{d/} Assessment deficiencies under protest by Republic Planters Bank (P0.14 million) and Citibank (P12.67 million) were recorded off-book effective CY 2001 (see Note 18). The remaining balance of P10 thousand refers to assessment deficiencies of various banks which were subsequently ordered closed by the Monetary Board.

^{e/} Represents (a) excess of waived financial assistance to one commercial bank and accrued interest as of November 1999 restructuring over the cost of closure; (b) documentary stamps tax paid relative to the P6.8 billion financial assistance to the same commercial bank; and (c) accrued interest expense on the outstanding loan from BSP, all of which are recoverable from the income on the P4.9 billion government securities held for the account of the commercial bank in accordance with the rehabilitation plan (see Notes 6, 12 and 13).

^{f/} Includes miscellaneous assets amounting to P1.11 million and contingent assets (disallowance by COA) - P0.44 million.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - CURRENT LIABILITIES

This account includes the following:

	2000	2001
	(In Thousand Pesos)	
Accrued Interest Payable to BSP ^{a/}	449,885	398,656
Accounts Payable – Various ^{b/}	84,997	118,980
Others ^{c/}	1,052,754	296,002
Total	1,587,636	813,637

^{a/} See Notes 6, 12 and 13.

^{b/} Refers to the amount due to various suppliers/creditors.

^{c/} Classified under Others are: a) Due to officers and employees (P19.51 million); b) Provision for Retirement (P26.49 million); and c) Dividends Payable to the National Government (P250 million). PDIC declared P2.0 billion as dividend to the National Government, of which P1.75 billion was remitted in advance to the government in 2001.

NOTE 12 - LONG-TERM LIABILITIES

This account represents outstanding loans payable to BSP consisting of the following: (a) P1.216 billion loan at 8.5 percent which will mature on July 2, 2013; used to service insurance claims in the 1980s and provide financial support in the merger of several rural banks; and (b) P28.85 billion loan to finance assistance granted to six (6) banks between CY 1997 and 2000; of which almost P17.0 billion was not reflected in PDIC's balance sheet prior to CY 2001 (see Notes 6 and 7).

NOTE 13 – OTHER LIABILITIES

This account includes the following:

	2000	2001
	(In Thousand Pesos)	
Deferred Assessment ^{a/}	88	787
Deferred Service Income ^{b/}	25,048	22,825
Deferred Credits – Inventories ^{c/}	81,886	7,814
Deferred Credits – Loans ^{d/}	-	333,885
Unearned Income ^{e/}	375,491	363,496
Total	482,513	728,807

^{a/} Refers to overpayment by banks which will be credited to subsequent assessment period.

^{b/} Deferred Service Income is not actually an income but reimbursement of part of salary and other benefits of PDIC officials supervising receivership and liquidation function temporarily booked as such pending actual collection. Effective January 1, 2001, charges to closed banks are no longer reflected in the books.

^{c/} Refers to the contra-account of Inventory Supplies and Materials – Semi-Expendable booked as such in compliance with COA regulations (see Note 4c).

^{d/} This is a temporary account to accumulate collections to be used to pay off obligations to BSP at the end of the term of the financial assistance to three (3) banks (see Notes 6, 11 and 12).

^{e/} Refers to discounts arising from purchase of treasury bonds.

NOTE 14 - PERMANENT INSURANCE FUND

This is the total capital provided by the National Government by virtue of Republic Act No. 3591, as amended or the PDIC Charter. The full capitalization was reached in 1994 with the conversion to equity of the National Government the P977.8 million obligation of PDIC to the then Central Bank of the Philippines.

NOTE 15 – GROSS ASSESSMENT

This represents annual collection from member banks (see Note 1b). Assessments collected during the past two years were as follows:

	2000	2001
	(In Thousand Pesos)	
Commercial Banks	3,421,097	3,777,878
Thrift banks	261,362	288,583
Rural Banks	75,663	84,893
Total	3,758,122	4,151,354

NOTE 16 - OPERATING EXPENSE

Includes interest on BSP loans amounting to P112.52 million.

NOTE 17 - OTHER INCOME

Among those included in this classification are leasehold payments for office space by various closed banks, management fees (fees on investible funds of various closed banks managed by the Treasury Center equivalent to 1.25 percent of the net asset value for the year), interest and penalties on late payments of assessments, dividends from PLDT, and proceeds from sale of decals and standees.

NOTE 18 - CONTESTED BILLINGS

These are assessment deficiencies levied on banks after audit of their payment to PDIC. In compliance with Regulatory Issuance No. 92-1 regarding rules and regulations governing the posting of security deposit by banks with contested billings, the following banks have maintained escrow deposits with government banks as follows:

Name of Bank	Assessment Deficiency	Escrow Deposits
	(In Thousand Pesos)	
Maybank (PNB – Republic Bank)	891	1,269
Citibank, N.A.	307,341	329,400
Total	308,232	330,669

The following banks have yet to maintain escrow deposits:

Name of Bank	Assessment Deficiency	Escrow Deposits
	(In Thousand Pesos)	
Bank of America	114,476	-
Hongkong and Shanghai Bank	143,446	-
Total	257,922	-

NOTE 19 - BANKS UNDER RECEIVERSHIP AND LIQUIDATION

As of yearend 2001, there are a total of 406 closed banks under PDIC receivership and liquidation, 18 of which were closed in CY 2001. Estimated realizable value of assets of these 406 banks amounted to more than P18.74 billion while liabilities aggregated more than P35.69 billion.

The outstanding Accounts Receivable–Receivership and Liquidation account as of December 31, 2001 amounted to P379.86 million (see Note 1g).

NOTE 20 - UNPAID CLAIMS

As of yearend 2001, total claims for insured deposits filed with PDIC but still remain unpaid amounted to P1.25 billion involving 43,334 accounts. Reasons for the pending status of filed claims include deficient documents to support claim, or claims need further verification by PDIC, or resolution of legal issues. Unpaid claims also include those already approved for payment but depositors have yet to come forward to claim their insured deposit.

Selected Indicators on the Philippine Banking System, 1999-2001

Amounts in Billion Pesos

COMMERCIAL BANKS	1999	2000	2001
Assets	2,679.6	2,938.6	2,954.5
Net Loans	1,491.9	1,520.5	1,489.1
Liabilities	2,302.0	2,556.4	2,564.3
Deposits	1,752.0	1,903.5	1,992.0
Capital	377.5	382.2	390.1
Net Income After Tax	10.4	11.9	12.7
Ratios (%)			
Capital/Risk Assets ¹	15.1	13.1	13.6
Non-Performing Loans/Gross Loans	12.4	14.4	16.8
Gross Problematic Assets ² /Total Assets	13.1	14.6	16.9
Net Income After Tax/Average Equity (ROE)	2.9	3.1	3.3
Net Income After Tax/Average Assets (ROA)	0.4	0.4	0.4
Quick Assets/Total Deposits	32.0	32.8	34.0
No. of PDIC Member Banks	52	45	45
THRIFT BANKS	1999	2000	2001
Assets	215.0	233.3	245.4
Net Loans	119.7	126.3	133.2
Liabilities	172.8	188.0	201.8
Deposits	131.9	140.3	160.4
Capital	42.2	45.2	43.5
Net Income After Tax	0.8	-1.0	-0.1
Ratios (%)			
Capital/Risk Assets ¹	21.8	21.4	17.7
Non-Performing Loans/Gross Loans	15.6	12.0	12.0
Gross Problematic Assets ² /Total Assets	18.7	17.0	18.6
Net Income After Tax/Average Equity (ROE)	2.0	-2.3	-0.3
Net Income After Tax/Average Assets (ROA)	0.4	-0.5	-0.1
Quick Assets/Total Deposits	31.2	34.4	26.2
No. of PDIC Member Banks	119	112	105
RURAL BANKS	1999	2000	2001
Assets	60.0	65.0	71.2
Net Loans	39.7	40.0	42.8
Liabilities	50.2	54.3	59.5
Deposits	35.6	41.3	47.1
Capital	9.7	10.7	11.7
Net Income After Tax	0.6	0.9	1.0
Ratios (%)			
Capital/Risk Assets ¹	18.0	18.0	18.0
Non-Performing Loans/Gross Loans	19.9	18.4	17.1
Gross Problematic Assets ² /Total Assets	n. a.	22.1	21.7
Net Income After Tax/Average Equity (ROE)	6.6	8.8	9.2
Net Income After Tax/Average Assets (ROA)	1.0	1.4	1.5
Quick Assets/Total Deposits	30.4	32.5	32.6
No. of PDIC Member Banks	800	782	776

Note: Computed ratios may differ from the previous annual report series due to changes in the concept adopted.

¹ In computing the ratio of Capital to Risk Assets, Capital is net of Appraisal Increment Reserves, Net Unrealized Gain on ASS, Deferred Income Tax, Goodwill and Unsecured DOSRI while Risk Assets are net of Goodwill, Unsecured DOSRI and Accumulated Market Gain excluding Accumulated Market Gain on ASS-Government.

(Risk Assets = Total Assets less Non-Risk Assets. Non-Risk Assets consist of Cash on Hand, Due from BSP, Due from Philippine Clearing House Corporation (PCHC), TAS Investments, Available Securities for Sale-Govt, IBODI-Government, Bank Premises and Deferred Income Tax).

² Gross Problematic Assets (GPA) consist of Non-Performing Assets and Restructured Current Loans. Non-Performing Assets (NPA) consist of Non-Performing Loans (per BSP Cir. 202) and ROPOA (Gross). If data on NPL is not available, sum of Past Due Loans & Items in Litigation is used.

N.A.- not available

Source: Consolidated Financial Statements submitted by member banks

Total and Insured Deposits in PDIC Member Banks, 1999-2001

Accounts in Thousands, Amounts in Million Pesos

	1999	2000	2001
Commercial Banks			
Member Banks	52	45	45
Total Deposits			
Accounts	16,587	17,192	19,044
Amounts	1,728,780	1,889,283	1,980,643
Insured Deposits	289,603	313,167	343,351
Insured to Total Deposits	16.8%	16.6%	17.3%
Private Banks			
Member Banks	49	42	42
Total Deposits			
Accounts	15,027	15,328	16,834
Amounts	1,563,368	1,710,626	1,793,391
Insured Deposits	268,501	285,991	314,006
Insured to Total Deposits	17.2%	16.7%	17.5%
Specialized Government Bank			
Member Banks	3	3	3
Total Deposits			
Accounts	1,560	1,864	2,210
Amounts	165,412	178,657	187,252
Insured Deposits	21,101	27,176	29,344
Insured to Total Deposits	12.8%	15.2%	15.7%
Thrift Banks			
Member Banks	119	112	103
Total Deposits			
Accounts	3,166	2,848	2,833
Amounts	131,858	140,312	160,444
Insured Deposits	38,183	44,027	45,100
Insured to Total Deposits	29.0%	31.4%	28.1%
Microfinance-Oriented Thrift Banks			
Member Banks	-	-	2
Total Deposits			
Accounts	-	-	9
Amounts	-	-	13
Insured Deposits	-	-	11
Insured to Total Deposits	-	-	91.8%
Savings and Mortgage Banks			
Member Banks	36	34	33
Total Deposits			
Accounts	1,793	1,657	1,614
Amounts	87,687	100,722	118,768
Insured Deposits	25,119	30,370	30,606
Insured to Total Deposits	28.6%	30.2%	25.8%
Private Development Banks			
Member Banks	41	37	37
Total Deposits			
Accounts	696	685	780
Amounts	33,408	31,439	33,482
Insured Deposits	7,903	9,397	10,323
Insured to Total Deposits	23.7%	29.9%	30.8%
Savings and Loan Association			
Member Banks	42	41	33
Total Deposits			
Accounts	677	506	439
Amounts	10,763	8,151	8,194
Insured Deposits	5,161	4,260	4,171
Insured to Total Deposits	48.0%	52.3%	50.9%
Rural Banks			
Member Banks	800	782	926
Total Deposits			
Accounts	4,379	4,495	44,643
Amounts	35,494	41,343	47,051
Insured Deposits	21,624	26,136	29,067
Insured to Total Deposits	60.9%	63.2%	61.8%

Notes:

1. Total deposits and insured deposits in PDIC member banks only; excludes deposits in overseas branches of Philippine banks.
2. All deposit accounts are covered by deposit insurance up to the maximum amount of P100,000.
3. Specialized government banks consist of Development Bank of the Philippines, Land Bank of the Philippines and Al Amanah Bank.
4. Ratios computed based on full amount.

Status of Claims Settlement Operations in Closed Banks, 1999-2001

Amounts in Million Pesos

1999 Closures	Commercial Banks	Thrift Banks	Rural Banks	Total
Closed Banks	-	2	31	33
Total Deposits				
Accounts	-	74,879	168,552	243,431
Amounts	-	1,351.19	2,604.04	3,955.23
Estimated Insured Deposits				
Accounts	-	74,842	168,160	243,002
Amounts	-	1,253.53	2,514.88	3,768.41
Claims Filed ^{a/}				
Accounts	-	34,866	65,988	100,854
Amounts	-	1,236.79	2,080.78	3,317.57
Insured Deposits Paid ^{a/}				
Accounts	-	33,304	61,190	94,494
Amounts	-	1,215.64	1,994.01	3,209.66
Pending Claims ^{a/}				
Accounts	-	1,562	4,798	6,360
Amounts	-	21.15	86.77	107.91
2000 Closures ^{b/}	Commercial Banks	Thrift Banks	Rural Banks	Total
Closed Banks	1	4	19	24
Total Deposits				
Accounts	13,745	69,062	87,811	170,618
Amounts	8,642	4,157.11	1,474.04	14,272.80
Estimated Insured Deposits				
Accounts	13,745	67,366	87,576	168,687
Amounts	430.18	1,627.08	1,331.60	3,388.86
Claims Filed ^{a/}				
Accounts	10,107	35,130	34,948	80,185
Amounts	337.37	1,601.82	1,261.54	3,200.73
Insured Deposits Paid ^{a/}				
Accounts	10,009	32,019	32,151	74,179
Amounts	333.34	1,468.24	1,190.73	2,992.31
Pending Claims ^{a/}				
Accounts	98	3,111	2,797	6,006
Amounts	4.02	133.58	70.81	208.41
2001 Closures	Commercial Banks	Thrift Banks	Rural Banks	Total
Closed Banks	-	-	18	18 ^{c/}
Total Deposits				
Accounts	-	-	94,446	94,446
Amounts	-	-	988.78	988.78
Estimated Insured Deposits				
Accounts	-	-	94,001	94,001
Amounts	-	-	760.05	760.05
Claims Filed ^{a/}				
Accounts	-	-	23,103	23,103
Amounts	-	-	674.12	674.12
Insured Deposits Paid ^{a/}				
Accounts	-	-	21,051	21,051
Amounts	-	-	544.83	544.83
Pending Claims ^{a/}				
Accounts	-	-	2,052	2,052
Amounts	-	-	129.29	29.29

^{a/} As of 31 December 2001

^{b/} Figures for total and insured deposits were revised to reflect adjustments.

^{c/} Data on claims filed, paid and pending refer only to the 15 banks with claims settlement operations started in 2001.

Selected Data on Banks Closed in 2001

Amounts in Million Pesos

	Closed Banks	Date of Closure	Estimated Insured Deposits (EID)		Insured Deposits Paid (IDP) ^{a/}		(IDP/EID)	
			Accounts	Amount	Accounts	Amount	Accounts	Amount
1	Rural Bank of Canaman (Camarines Sur), Inc.	08-Jan-01	18,104	315.48	7,485	292.87	41%	93%
2	Rural Bank of Dingle (Iloilo), Inc.	12-Jan-01	2,062	22.61	1,382	19.78	67%	88%
3	Rural Bank of Roxas (Palawan), Inc. ^{b/}	08-Mar-01	-	-	-	-	-	-
4	Rural Bank of Agdangan (Quezon), Inc.	15-May-01	5,893	25.94	1,577	24.28	27%	94%
5	Harvest Bank (Daraga, Albay), Inc.	16-May-01	564	3.27	64	2.82	11%	86%
6	Countryside Rural Bank (Real, Quezon), Inc.	18-May-01	8,592	26.53	1,636	19.23	19%	72%
7	South Cotabato Cooperative Rural Bank, Inc.	11-Jun-01	3,828	14.37	522	8.29	14%	58%
8	Rural Bank of Orion (Bataan), Inc.	18-Jun-01	12,381	27.64	816	19.32	7%	70%
9	Rural Bank of Malita (Davao del Sur), Inc.	09-Jul-01	9,247	53.55	2,925	47.23	32%	88%
10	Davao Cooperative Bank (Davao del Norte), Inc.	16-Jul-01	15,022	168.83	2,272	84.07	15%	50%
11	Rural Bank of San Narciso (Quezon), Inc.	02-Oct-01	1,855	9.57	834	6.23	45%	65%
12	Community Rural Bank of Allen (Northern Samar), Inc.	08-Oct-01	654	4.39	334	3.33	51%	76%
13	Rural Bank of Mangatarem (Pangasinan), Inc.	15-Oct-01	6,269	20.33	343	1.05	5%	5%
14	Rural Bank of Bugallon (Pangasinan), Inc.	15-Oct-01	5,170	29.28	761	13.87	15%	47%
15	Rural Bank of Narvacan (Ilocos Sur), Inc.	15-Oct-01	905	23.29	34	0.80	4%	3%
16	Rural Bank of Tinambac (Camarines Sur), Inc.	12-Nov-01	694	4.06	66	1.68	10%	41%
17	Cooperative Bank of Negros Occidental, Inc. ^{c/}	03-Dec-01	2,034	8.48	-	-	-	-
18	Second Rural Bank of Villasis (Pangasinan), Inc. ^{c/}	15-Dec-01	727	2.42	-	-	-	-
Total			94,001	760.05	21,051	544.83	22%	72%

^{a/} As of yearend 2001

^{b/} Deposits not covered by PDIC; the Bank was ordered closed way past the 90-day grace period from termination of its insured status by PDIC.

^{c/} Claims settlement operations started in 2002

Claims for and Recovery of Subrogated Deposits, 1999-2001

Yearend Position, Amounts in Million Pesos

	1999		2000		2001	
	Banks	Amount	Banks	Amount	Banks	Amount
Subrogated Deposits	353	7,783.42	384	10,921.94	405	12,362.48
Claims filed by PDIC against closed banks	326	3,528.02	337	3,653.08	348	3,720.22
Claims not yet filed	27	4,255.40	47	7,268.86	57	8,642.26
Recoveries on Claims Filed	37	1,059.50	39	1,130.64	42	1,569.19
Partial Recovery	5	867.36	6	885.49	7	968.86
Full Recovery	32	192.14	33	245.15	35	600.33
Claims Filed But Not Yet Recovered	289	2,468.52	298	2,522.44	306	2,151.03
Ratios						
Recoveries to Subrogated Deposits	10.5%	13.6%	10.2%	10.4%	10.4%	12.7%
Recoveries to Total Claims Filed	11.3%	30.0%	11.6%	31.0%	12.1%	42.2%

The PDIC Board of Directors



Standing, from left: Norberto C. Nazareno, Jose Isidro N. Camacho, Alberto V. Reyes (alternate to Rafael B. Buenaventura); seated: Carmen DV. Lim

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NORBERTO C. NAZARENO
RAFAEL B. BUENAVENTURA*
CARMEN DV. LIM
PASTOR T. SAYCON**

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MEMBER, Governor, Bangko Sentral ng Pilipinas
MEMBER, Private Sector Representative
MEMBER, Private Sector Representative

**In his absence, Deputy Governor Alberto V. Reyes serves as alternate*

*** Not in photo.*

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Executive Vice President & Chief Operating Officer
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Vice President - Human Resource Management Group
Vice President - Receivership and Liquidation Group I
Vice President - Special Services Group
Vice President - Risk Management Group I
Vice President - Finance Group
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Department Manager / OIC, PDIC Training Institute
Vice President - Risk Management Group II
Vice President - Asset Management Group
Vice President - Management Control Group
Vice President - Litigation Services Group
Vice President - Insurance Claims Group
Vice President - Receivership and Liquidation Group II
Vice President - Insurance and Risk Assessment Group

* On secondment from the Office of the Government Corporate Counsel (OGCC) effective January 15, 2002.

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DE LEON, DENNIS CARLOS C.
DE LEON, EMMANUEL C.
DE LEON, JOAN S.
DE LEON, RAFAEL D.
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DELA CRUZ, JOFREY B.
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DELA CRUZ, RAQUEL A.
DELA CRUZ, RICHARD O.
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DELOS REYES, VIRGINIA E.
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DETICIO, ELAINE B.
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DIZON, CARYLE G.

DIZON, FRANCISCO N.
DIZON, ROSARIO E.
DONATO, MATEO A.
DRILON, LUDOVINA V.
DUCO, DINIE D.
DULALIA, JR., ROGELIO P.
DUMAGPI, CYNTHIA S.
DUMALE, GENALIN A.
DUMBRIQUE, DAHLIA E.
DURANA, EUNICE L.

E

EAMILAO, DOROTHY C.
ECHAUS, NATIVIDAD A.
ECO, MA. CELESTE G.
ELARDO, NILO T.
ENCARNACION, CELY M.
ENRIQUEZ, ANALYN D.
ENRIQUEZ, JUANITO R.
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ESTEVEZ, CHERRYLYN L.
ESTORES, GILDA T.
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EUGENIO, LEAH P.

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FAJARDO, IMELDA A.
FALCON, MICHAEL M.
FAUNE, LYNN N.
FELIX, SHIRLEY G.
FELIX, YASMIN CORAZON B.
FERAREZA, MARIO G.
FERNANDEZ, LAURA P.
FERNANDEZ, MADELAINE BARBARA M.
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FERRERAS, VENUS V.
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FRANCO, JR., HONORIO E.
FRIA, ROSARIO R.

G

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 GALAN, JOSE E.
 GALANG, YRENN ARMIELITA S.
 GALLARDO, TEODORO E.
 GALOSMO, FREDY S.
 GAMBOA, ARIES T.
 GANA, JOSE MARI C.
 GARAY, MARISA A.
 GARCIA, RENATO C.
 GARCIA, TERESA H.
 GATDULA, LAWRENCE C.
 GATPATAN, EDGAR G.
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 GELOCA, IMELDA V.
 GENER, CORAZON P.
 GEPILA, MARY JANE G.
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 GLORIA, MELANIE R.
 GLORIANI, IMELDA L.
 GO, DANIEL D.
 GO, ROSALYN M.
 GONGON, ANITA R.
 GONZALES, CYRIL O.
 GONZALES, TERESITA D.
 GONZALEZ, ERWIN L.
 GOPEZ, BERNADETTE L.
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 GUTIERREZ, MAGNOLIA S.

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 HERRERA, ROMEO L.
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 HOGAR, JOSELITO C.
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 JONGCO, FILOMENA E.
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 LIBUNAO, MA. LOLITA S.
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 LUCINA, ROSALIE R.
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 TUBELONIA, CLEOFE J.
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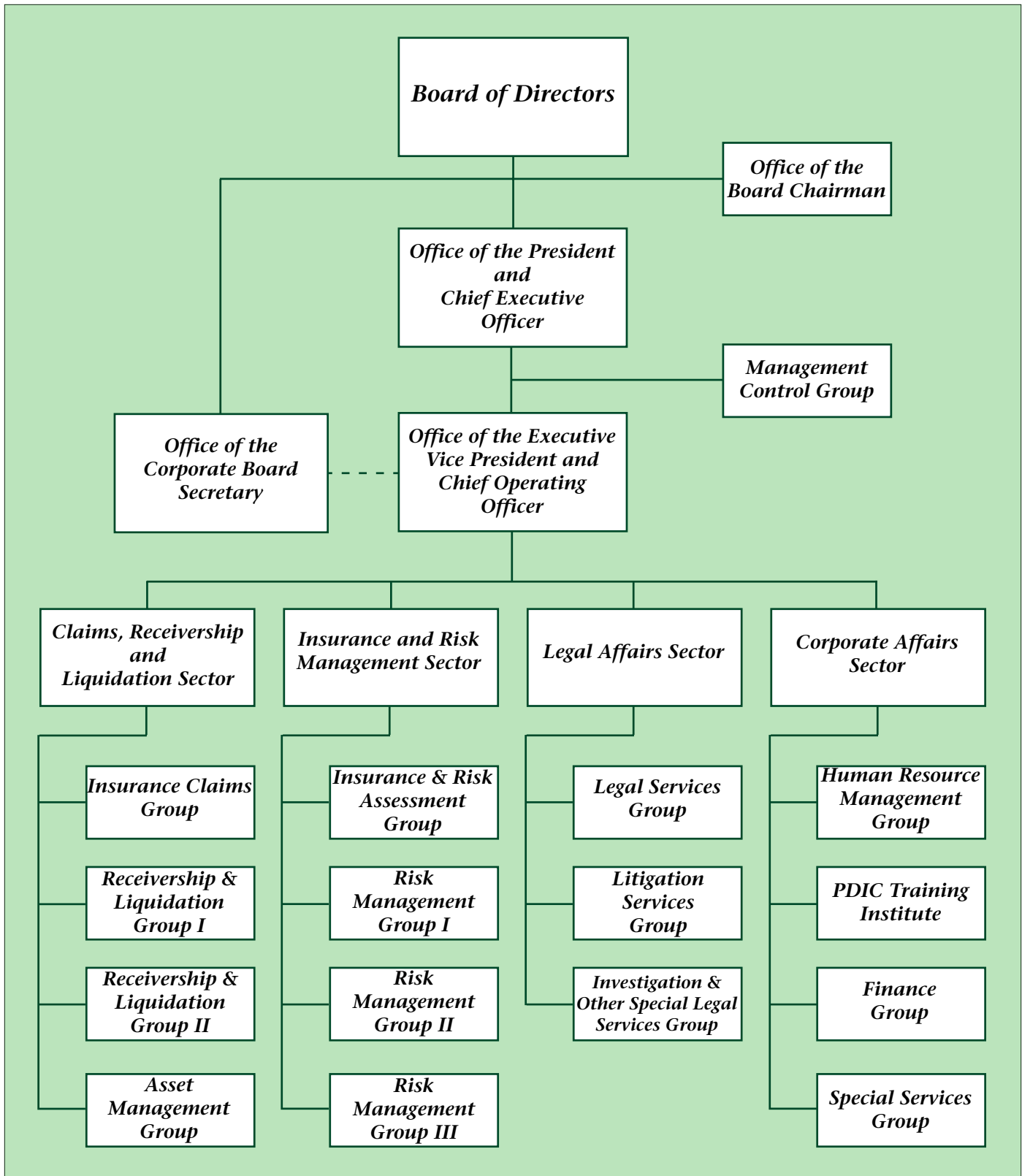
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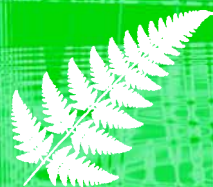
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ZABAYLE, PATRICIA J.



PDIC Organizational Chart





Philippine Deposit Insurance Corporation

2228 Chino Roces Avenue, Makati City, 1231, Philippines

Telephone Numbers: (632) 810-4901 to 10; 818-0073; 812-0961

Fax Number: (632) 817-3566 • Website: www.pdic.gov.ph • Email: info@pdic.gov.ph