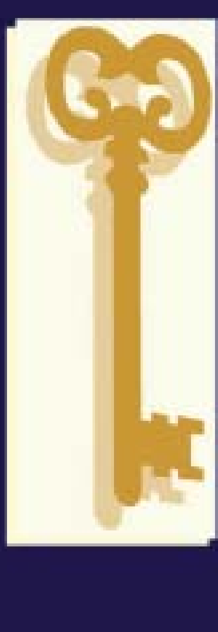
Vol.2 No.2 December 2004

PDIC FORUM

www.pdic.gov.ph

A Semestral Publication
of the Philippine Deposit Insurance Corporation



R.A. 9302: Enhancing Depositor Protection

The Cover

*The **gold key** symbolizes security and protection - the centerpiece of PDIC's mandate to protect depositors and help maintain public confidence in the stability of the banking system. PDIC's powers were further enhanced with the enactment of Republic Act 9302, which amended the PDIC Charter.*

Publisher's Note

RICARDO M. TAN
President & Chief Executive Officer
Philippine Deposit Insurance Corporation

I am pleased to present the December 2004 issue of the PDIC Forum which walks us through the vital provisions of Republic Act 9302, the law that amended the Charter of the Philippine Deposit Insurance Corporation. RA 9302 was signed by President Gloria Macapagal-Arroyo on July 27, 2004 and took effect on August 12, 2004. This issue unravels the benefits of RA 9302 to the 26 million depositors of banks and to the general public. It also highlights policy reforms and new procedures to further strengthen depositor confidence essential in maintaining stability in the banking system.

*Senator Sergio Osmeña III, the prime mover of the PDIC bill, sat down with **PDIC Forum** to share his personal views on the new law, and disclosed legislative moves to further strengthen the financial sector and protect the depositing public. His insights, proposals, as well as present and future advocacies are summarized in **Straight Talk.***

*The articles prepared by our Research Department for the **PDIC Front**, provide understanding of the treatment of deposit accounts under the amended PDIC Charter and present enhancements in the receivership/ liquidation powers of PDIC.*

*In **DI World,** Dr. Salusra Satria and Hari Prasetya, of the Ministry of Finance of Indonesia, share the basic features of the Indonesia Deposit Insurance Corporation in the article, "Welcoming a Deposit Insurance System in Indonesia".*

*Professionals and ordinary folks share their insights to the most essential question, "How do you choose your bank?" in **Perspectives.***

I hope that this special issue on the amended PDIC Charter will enlighten the depositing public on the enhanced role of PDIC as a pillar of the financial safety net system.

PDIC FORUM is published twice a year by the Philippine Deposit Insurance Corporation with editorial office at the Public Affairs Department, G/F PDIC Bldg., 2228 Chino Roces Avenue, 1231 Makati City, Philippines Tel. No: (632) 841-4000 loc. 4047-4049; (632) 841-4051
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Vol.2 No.2 December 2004
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Salient Features of Republic Act 9302: The Amended PDIC Charter

The signing into law of Republic Act 9302 (R.A. 9302) on July 27, 2004, after the 12th Congress approved the bill on its last day of session on July 10 this year, capped more than five years of a rigorous legislative process.

R.A. 9302 provides greater protection to 26 million depositors nationwide by increasing the maximum deposit insurance coverage (MDIC) to P 250,000. This represents 2.5 times more insurance protection than the previous maximum coverage of P100,000 which has been in effect since 1992. Even in real terms, the new MDIC offers a higher level of protection than the previous MDIC.

With no corresponding increase in assessment rates, there is a much greater risk posed to the Deposit Insurance Fund (DIF). To counter this, the law enhances PDIC's capability to minimize risks to the DIF by reinstating its authority to examine banks subject to prior approval of the Monetary Board. This authority will fortify the financial system's safety net through complementary surveillance and examination by the Bangko Sentral ng Pilipinas (BSP) and PDIC, allowing prompt remedial intervention.

Additionally, R.A. 9302 seeks to institute reforms in the system by allowing PDIC in coordination with the BSP to set standards for deposit record-keeping to facilitate insurance claims processing in the event of bank closures.

The new law also commits to every depositor continued protection through deposit insurance, as PDIC's authority to terminate the insurance status of banks, even those with delinquent premium payments, has been revoked. Thus, depositors no longer need to worry whether their banks pay premium to PDIC or not. Instead, the responsibility shifts to the officers and owners of banks who are now personally liable to stiff fines and penalties for non-payment of the insurance premium.

The amended Charter instills financial discipline among bank owners and officials through the imposition of stiffer penalties for unsafe and unsound banking practices of up to 12 years in prison and a maximum of P2 million in fines, or both. Punishable under the amended Charter are: submission of false material information in relation to any financial assistance extended to the bank; splitting of deposits or creation of fictitious loans or deposit accounts; refusal to allow PDIC to take over a closed bank under its receivership power or obstructing such action; refusal to turn over, or

destroying, or tampering of bank records; fraudulent disposal, transfer, or concealment of any asset or liability of the closed bank under receivership; and violation of the exemption from garnishment, levy, attachment, or execution provided under R.A. 9302 and the New Central Bank Act.

In the same manner, the law also promotes greater market discipline by deterring depositors from splitting large deposit balances in a bank to get around the insurance limit. The new MDIC, effective August 12, 2004, will now be applied on the sum of all the shares of a depositor in all joint accounts in a closed bank. Furthermore, depositors will no longer be attracted to abnormally high interest rates. PDIC, as receiver, has obtained the authority to reduce interest rates due depositors in closed banks to within prevailing market rates.

As an added measure to protect depositors and restore confidence in the banking system, the amended PDIC Charter extends the prescriptive period for filing claims from 18 months to 24 months, thereby giving more time to depositors to file their deposit insurance claims.

In sum, RA 9302 has strengthened the depositor protection capabilities of the PDIC through various reforms involving not only regulators, but the depositors and bank managers as well.

Sen. Sergio Osmeña III: On Steering the Passage of R.A. 9302 and Advocating for a Stronger Financial System thru Legislative Reforms

Senator Sergio Osmena III counts as one of the few staunchest proponents of vital policy and structural reforms in the legislative front who champions both a sound financial system and strong protection for depositors and consumers of financial products and services.

As chairman of the Committee on Banks and Financial Intermediaries, he laid the groundwork for the necessary amendments to the PDIC Charter and steered it through its final ratification. In this exclusive interview with the PDIC Forum, Senator Osmena, in retrospect, walks through the proceedings on the enactment of RA 9302 while sharing with us his present and future legislative advocacies relative to financial sector legislative reforms.

Forum: In your personal view, how vital is the passage of Republic Act (RA) 9302 to the banking system and the 26 million depositors?

Sergio Osmeña III: The passage of RA 9302 strengthened the regulation of the Philippine banking system and provided greater protection most crucial to small depositors by increasing the coverage of the deposit insurance. The new law fostered greater stability as well as renewed confidence in the banking sector.

Senator Sergio Osmeña III

Forum: The new law did not contain all the original major provisions in the Senate version of the Bill. Which provisions do you consider most unfortunate to not have been passed and why?

SO: The Senate approved to restore the power of the deposit insurer to examine the books of member banks whenever necessary. By requiring prior MB approval for PDIC bank examination, the new legislation defeats the Senate's original intention of empowering the PDIC to swiftly examine banks' finances, and makes it more difficult for PDIC to more accurately evaluate risks of failure in banks as basis for resolving problems.

Another major loss is the provision on the immunity of PDIC officials and staff from civil, criminal and administrative liability in the discharge of their functions. The Senate provision was aimed to protect PDIC officials and staff from lawsuits in the course of performing their duties and to ensure that PDIC examiners will be emboldened to conduct bank examinations supplemental to BSP. Thus, the provisions of the Administrative Code as well that of R.A. 9302, which explicitly allows PDIC to incur and advance costs pertaining to the case will have to suffice. The employee sued may be liable to refund such costs if case is decided against him.

Lastly, the Senate proposed amendments to enhance the receivership and liquidation powers of PDIC. The proposed powers for the receiver that were not included in the enacted version are:

- To sell, transfer or convey the assets of the closed bank without approval by the Board of Directors and stockholders of such closed bank; and
- To suspend or stay all legal proceedings against the bank under receivership for 90 days.

Forum: Apart from the original Senate provisions, some had to give way to the harmonized bicameral version. In hindsight, do you think there could be more reforms pertaining to moral hazard that could be addressed by this legislation?

SO: Additional studies should have been conducted on the following:

- The assessment rate charged by PDIC to its member banks. The increase in the maximum deposit insurance cover without a corresponding rise in the premium on banks may encroach on the viability of the deposit insurance fund.

With the amendment restoring the examination power of the PDIC over the banks, prompt corrective action can be undertaken with less need for financial assistance.

- Removal of continuity of insurance coverage even in case of delinquent premium payments by banks. This creates a moral hazard so strict adherence to the punitive provisions of the law to be imposed on the officers responsible for non-payment is necessary.

Forum: Do you think bank examination functions reverted to PDIC will now provide the necessary checks and controls to help limit unscrupulous bank practices?

SO: To a greater extent, yes. The risk management activities of PDIC now complement the supervisory functions of BSP in promoting stability of the banking system.

With the amendment restoring the examination power of the PDIC over the banks, prompt corrective action can be undertaken with less need for financial assistance. This authority will fortify the financial system's safety net through complementary surveillance and examination by the BSP and PDIC, allowing prompt remedial intervention that could spare depositors and communities the adverse effects of bank closures.

Forum: Now that PDIC's Charter has been amended and its powers enhanced, what internal reforms do you think PDIC should embark on to function more effectively as an important component of the financial safety net?

SO: PDIC, in coordination with BSP, would have to draft guidelines on bank examinations to ensure that these are done effectively despite the restriction of limiting this to only once every 12 months for individual banks. The guidelines should ensure that there is no overlapping of efforts between the two regulators.

To facilitate the conduct of the examination of banks, a review of reportorial requirements for banks should also be done.

To ensure better management of the financial sector, PDIC should have closer coordination with the

domestic regulators. The interconnectedness among the different types of financial intermediaries makes more difficult the task of enforcing prudential discipline because of the potential for regulatory arbitrage by taking advantage of more lax rules where possible. This argues for a substantial strengthening of consolidated supervision mechanism via closer cooperation among the four key agencies, namely BSP, PDIC, the Securities and Exchange Commission and the Insurance Commission.

Forum: Are you satisfied with the P250,000 MDIC under the new law given the Senate proposal of an increase to P200,000 only?

SO: Yes, this is a product of a compromise from the proposal to raise the MDIC to a high of P400,000 which would have required an increase in assessment rates, to a level that would still increase the level of insurance protection considerably, but not the need to impose higher levy on banks. Still, at P250,000, greater protection was given to more depositors. It covers 96 percent of total number of accounts in the banking system in 2003 compared to 91 percent at the previous cover. The Senate proposed level of P200,000 would have resulted in a lower coverage at 95 percent but would be more effective in limiting the moral hazard.

The Legislature recognizes the need to continue fostering an efficient, stable and competitive banking system that supports the sustainable growth of the economy.

The timely passage of R.A. 9302 afforded security to unfortunate depositors of First Savings Bank, Inc., a thrift bank, which had a total of 10,609 deposit accounts. Less than a month from effectivity, the law was applied for the first time to depositors of this closed bank and based on the bank's latest report, almost all accounts were fully insured at the new MDIC of P250,000.

Forum: What other moves in the Legislature, particularly in the Senate, are geared towards strengthening the financial sector and the protection of the depositing public?

SO: The Legislature recognizes the need to continue fostering an efficient, stable and competitive banking system that supports the sustainable growth of the economy.

Priority measures at the Senate aimed at restructuring and reforming the financial sector, which this representation has been persistently advocating for, include, but not limited, to the following proposals:

a. Amendments to the BSP charter – to strengthen its supervisory powers to better promote a sound banking system

b. Corporate Recovery Act – to modernize and clarify the rules for recovery of financially-distressed enterprises and the resolution of their indebtedness

c. Pre-Need Code – to strengthen and enhance the regulatory framework to protect future investors and planholders

d. Personal Equity Retirement Account (PERA) Bill – to improve the country's savings rate by institutionalizing a retirement fund for public and private sector employees and self-employed individuals with tax incentives

e. Revised Investment Company Act – to ensure protection for investors through proper regulation and to encourage

more investors to invest in long-term securities

f. Amendments to the Charters of SSS and GSIS – to enhance regulation to improve the management of pension funds which are in poor financial health resulting in growing funding gaps, deficits and declining surpluses

g. Single Regulator Bill – to establish a central monetary authority for the entire financial sector that would tighten government regulation over the financial markets by minimizing gaps in the regulation of financial intermediaries and, in turn, curb corporate fraud or failures.

Senator Sergio R. Osmeña III's mettle in public service descends in his family. He is the grandson of former Philippine president Sergio Osmeña Sr. who served from 1944-1946. His grandfather, Esteban dela Rama, and his father, Sergio Osmeña Jr., had been elected senators.

Serving the Senate on his second term (elected in May 1995 and re-elected in May 2001), Senator Osmeña authored 65 laws and co-authored 55 other laws dedicated to improving the socio-economic conditions of the Filipino. In all past Congress, Sen. Osmeña III has always filed the most number of bills in the Senate.

As Chairman of the Committee on Banks, Financial Institutions and Currencies of the 12th Congress, Senator Osmena championed the cause of the depositors by steering the passage into law of the amendments to the PDIC Charter.

He is currently the Chairman of the Senate Committee on Social Justice, Welfare & Rural Development and Member of Commission on Appointments and Joint Congressional Power Commission of the 13th Congress.

Determining Insured Deposit Under R.A. 9302

R.A. 9302, an act amending R.A. 3591, otherwise known as the "Charter of the Philippine Deposit Insurance Corporation", was signed into law on July 27, 2004 and took effect on August 12, 2004. Under the new law, the maximum deposit insurance cover (MDIC) is increased from P100,000 to P250,000.

The revised PDIC Charter has broadened PDIC's powers to fulfill its mandate of protecting small, unsophisticated depositors, instill confidence in banks and help maintain stability in the financial system. This article discusses how RA 9302 changes the way insured deposits are determined, given different scenarios.

Treatment of Joint accounts

The relevant provisions under Section 4 (g) of the revised Act reads:

"…. A joint account regardless of whether the conjunction "and," "or," "and/or" is used, shall be insured separately from any individually-owned deposit account: provided, that (1) if the account is held jointly by two or more natural persons, or by two or more juridical persons or entities, the maximum insured deposit shall be divided into as many equal shares as there are individuals, juridical persons or entities, unless a different sharing is stipulated in the document of deposit; and (2) if the account is held by a juridical person or entity jointly with one or more natural persons, the maximum insured deposit shall be presumed to belong entirely to such juridical person or entity: provided, further, that the aggregate of the interests of each co-owner over several joint accounts, whether owned by the same or different combinations of individuals, juridical persons or entities, shall likewise be subject to the maximum insured deposit of two hundred fifty thousand pesos (P250,000.00)…"

Joint accounts shall be divided equally into as many shares as there are individuals and shall be considered as owned solidarily by the depositors named in the account, regardless of whether the account is maintained as "and", "and/or", or "or", unless a different sharing is stipulated in the document of deposit. If the depositor is a co-owner in several joint accounts, his share in the insured amount of each joint account shall be added together, the sum of which shall not exceed P250,000.

The new provision limits insured deposits per depositor to a maximum of P500,000, P250,000 for individual/singular account and another P250,000 for total shares in joint accounts.

In the previous charter, deposit accounts maintained in the same right for the depositor's benefit either for himself or for another shall be added together or consolidated. Since it was not explicitly expressed that joint and several accounts were treated as separate from individual/singular accounts in computing insurance coverage, the MDIC was applied for each joint deposit account with distinct combination of individuals.

It is now clearly stated in the new Act that joint accounts are insured separately from the individual/singular account/s of the depositor. A depositor, therefore, may receive up to P250,000 in insured deposits for all account/s maintained solely under his name and up to P250,000 for the sum of his shares in all joint accounts. The deposit beyond the insured limit shall constitute the uninsured portion of his deposits,

The new Charter has broadened PDIC's power to fulfill its mandate of protecting small, unsophisticated depositors, instill confidence in banks and help maintain stability in the financial system

which shall be paid after liquidation of the closed bank provided that net proceeds from liquidation are enough to cover such claims after payment of preferred creditors. Uninsured deposits are classified as ordinary credits and are paid after preferred credits but before the bank's shareholders.[1]

For illustration, consider the following deposit accounts:

Jose	P 300,000	Jose and Pilar	P 400,000
Jose and/or Pilar	250,000	Jose and/or Anita	300,000

The computation will be as follows:

Deposit Account Name	Account Balance	Share in the Deposit			Total Insured Deposit	Share in the Insured Deposit			Uninsured Portion		
		Jose	Pilar	Anita		Jose	Pilar	Anita	Jose	Pilar	Anita
Jose	300,000	300,000	-	-	**250,000**	250,000	-	-	50,000	-	-
Jose and/or Pilar	250,000	125,000	125,000	-	**250,000**	125,000	125,000	-	-	-	-
Jose and Pilar	400,000	200,000	200,000	-	**250,000**	125,000	125,000	-	75,000	75,000	-
Jose and/or Anita	300,000	150,000	-	150,000	**250,000**	125,000	-	125,000	25,000	-	25,000
Total Deposit	1,250,000	775,000	325,000	150,000		625,000	250,000	125,000			
Total Insured Deposit						**500,000**	**250,000**	**125,000**			
Total in excess of MDIC									125,000	-	-
Total Uninsured Deposits									**275,000**	**75,000**	**25,000**

The total insured deposits due to Jose is P500,000, and not P625,000, divided into P250,000 for his individual account and another P250,000 for the sum of his share in three (3) joint accounts. His total insured deposit share from his joint accounts exceeds the MDIC by P125,000, which brings his total uninsured deposits to P275,000. Pilar's insured deposits equal P250,000 for her two (2) joint accounts, with P75,000 uninsured, while Anita's insured share is P125,000. Her uninsured deposit is P25,000.

Offsetting of loans

Insured deposit is the amount due to any depositor for deposits in an insured bank net of any obligation of the depositor as of the date of closure, but not to exceed P250,000. If a depositor has an outstanding loan with the closed bank, whether matured or unmatured as of closure date, his outstanding loan shall be netted from his total outstanding deposits and not from the insured portion of his deposits in computing his insured deposit. The net outstanding deposit therefore becomes the basis for computing the insured deposit due to the depositor.

If the depositor is a co-owner of a joint account and has an outstanding loan with the closed bank, the insured deposit is determined by deducting the outstanding loan from his share of the joint account. His loan obligation should not be deducted from the share of his co-owner.

To illustrate, consider the following case with balances as of date of bank closure:

Deposit Account:
- Patria and/or Carlos — 400,000

Outstanding Loan:
- Patria: Matured Loan — 150,000
- Carlos: Unmatured Loan — 50,000

Accounts	Account Balance	Share in the Deposit		Insured Deposit		Uninsured Deposit	
		Patria	Carlos	Patria	Carlos	Patria	Carlos
Patria and/or Carlos	400,000	200,000	200,000				
Loan							
Patria	150,000	(150,000)					
Carlos	50,000		(50,000)				
Net Deposit		50,000	150,000				
Insured Deposits				**50,000**	**150,000**		
Uninsured Deposits						150,000	25,000

[1] *Sec. 12 of PDIC Charter and Chapter 2, Article 2241 of the Civil Code.*

If a loan is secured by hold-out (a deposit account securing a loan from the same bank) on a joint "and/or" account, then the loan balance shall be netted from the entire account, regardless of who among the owners of the joint account is the registered borrower. Although the conjunction, "and/or", does not matter for purposes of computing insured deposits for joint accounts under the amended charter, the basic nature and concept of an "and/or" account of being jointly and severally owned is the basis for the retention of its full treatment as security to a loan[2]. By virtue of the hold-out agreement, the total amount in the joint account, and not just the borrower's share shall be the subject of the hold-out. However, if the loan is held against a joint "and" account, the netting of the loan shall only be applied to the share of the borrower, unless the other owners of the account have consented to their shares to the hold-out agreement.

Given the following information as of date of closure:

Deposit Account:
Elena and/or Bayani
Outstanding Loan secured by hold-out on Elena and/or Bayani account

Accounts	Account Balance	Share in the Deposit		Insured Deposit	
		Elena	Bayani	Elena	Bayani
Elena and/or Bayani	400,000				
Loan					
Elena	150,000				
Bayani	-				
Net Deposit	**250,000**	50,000	150,000		
Insured Deposits				**125,000**	**125,000**
Uninsured Deposits					

Elena's P150,000 obligation is netted from the whole P400,000 balance of the joint account, and the resulting net deposit is subjected to the MDIC then divided into two equal shares to determine the insured deposits due to Elena and Bayani, each receiving P125,000. Both will receive same amount even if the loan was less than P150,000 because the deposit balance will exceed the MDIC.

Using the same information in the above example except that the joint deposit is an "and" account instead of "and/or", and that Bayani has not consented to the hold-out of their deposit, Elena's whole P150,000 loan balance shall be netted out only from Elena's share in the joint deposit. The resulting insured deposits shall then be P50,000 and P125,000 for Elena and Bayani, respectively.

Deposit Splitting

The new Act imposes fines of up to P2 million including imprisonment of directors, officers, employees or agents of a bank found guilty of facilitating the fraudulent splitting of deposits or creation of fictitious loans or deposit accounts.

Splitting of deposits occurs whenever a deposit account with an outstanding balance of more than the statutory maximum amount of insured deposit maintained under the name of natural or juridical persons is broken down and transferred into two or more accounts in the name/s of natural or juridical persons or entities who do not actually have beneficial ownership of the transferred deposits.

Splitting of deposits with balances of more than P250,000 done within 30 days before bank closure or during a bank-declared holiday will make the responsible bank officer liable to fines and penalties of up to P2 million including imprisonment of up to 2 years. After being given due process, if the depositor fails to substantiate his claim and the bank officer responsible for the splitting fails to prove the validity of the split deposits, then the splitting shall be considered fraudulent and the split deposits shall be reverted to the original accounts for purposes of computing the maximum insured deposits and the officer guilty of fraud shall be penalized accordingly.

The propensity to split is significantly minimized by both the penalties on those found guilty of fraudulent splitting and the new treatment of joint accounts where each co-owner's total share in all his joint accounts is capped at P250,000 and the stiff application of the MDIC.

Deposit records-keeping standards

The major reason for delays in the payment of insured deposits is the poor quality of deposit records upon takeover of the closed bank. This makes it difficult for PDIC examiners to instantaneously determine insured amounts payable to depositors. The provision in the new Act authorizes PDIC, in coordination with the Bangko Sentral ng Pilipinas, to institute guidelines and acceptable standards for

[2] *J.F.D. Clariza, Opinion No. LAS-067-04, PDIC-ICG Memo, August 5, 2004.*

deposit record-keeping procedures in order to hasten insurance claims payout.

Each insured bank shall be required to keep and maintain accurate records of daily deposit transactions consistent with the set standards, for which compliance shall be duly certified. Failure to issue the required certification shall subject the concerned officer to fines of up to P2 million and/or imprisonment of up to 2 years as provided for in the law.

Compliance by banks with the prescribed deposit record-keeping standards will expedite the payment of insured deposit claims in case of bank closures and facilitate assessment audit by PDIC of premium collection essential to building the deposit insurance fund.

This article has outlined how insured deposits are determined under the amended PDIC Charter, which shifted the focus from "deposit accounts" to "depositors". Deposit splitting is now explicitly defined in the Charter with corresponding increase in fines. The treatment of joint accounts that caps all shares of a co-owner of several joint accounts to P250,000, together with the increase in fines, may substantially mitigate the depositors' propensity to split their accounts. Adherence to new standards for record keeping of deposit transactions will reduce the lag time between the date of PDIC takeover of a closed bank and the actual payout of insured deposits. These new provisions of law have taken the quality of depositor protection and enhancement of confidence in the banking system several notches higher.

* *Written by **Aries T. Gamboa,** Senior Research Specialist, Research Department.*

Towards More Efficient Liquidation of Closed Banks

Background

The Philippine Deposit Insurance Corporation (PDIC) became mandatory receiver and liquidator of closed banks since 1992 by virtue of Republic Act 7400. The bank receivership and liquidation functions previously vested in the then Central Bank of the Philippines (now Bangko Sentral ng Pilipinas) were transferred to PDIC to allow the Central Bank to focus its resources on its role as the monetary authority and bank supervisor.

The authority of PDIC to act as the mandatory receiver and liquidator of closed banks is provided for in Section 30 of the New Central Bank Act (RA 7653), which was enacted in June 1993.

The Monetary Board may place a bank under PDIC's receivership upon determination that a bank is insolvent, or when it can no longer service its short-term liabilities or can not continue operating with safety and soundness to the depositing public under the following grounds:

a) inability to pay its liabilities as they become due in the ordinary course of business;
b) insufficient realizable assets, as determined by the BSP, to meet its liabilities;
c) cannot continue in business without involving probable losses to its depositors or creditors;
d) willful violation of a cease and desist order under Sec. 37 of RA 7653 that has become final, involving acts or transactions which amount to fraud or a dissipation of the assets of the institution.

In carrying out its mandate as receiver/liquidator, PDIC had been confronted with the tedious and difficult process of converting into cash the largely non-performing assets of closed banks, and with impediments which are difficult to resolve in the absence of explicit provisions of Law – such as closed bank owners' resistance to PDIC take-over, missing bank records and assets, withholding of owners' consent to rehabilitation proposals, and labor claims, among others. With the recent amendments to the PDIC Charter through RA 9302, the administration and disposal of closed bank assets are hastened, and the liquidation of the closed banks' assets is expedited and maximized.

Receivership and Liquidation Functions

Upon its appointment by the Monetary Board as receiver of a closed bank, PDIC immediately takes control and preserves the closed bank's assets, records and affairs, and administers the same for the benefit of the institution's depositors and other creditors. Under Section 30 of the New Central Bank Act, the PDIC, as receiver, should as soon as possible but not later than 90 days from takeover, determine whether a bank placed under receivership by the Monetary Board may be rehabilitated with safety to its depositors, creditors, and the general public. If PDIC, as receiver, determines that the institution cannot be rehabilitated or permitted to resume business, the Monetary Board shall notify in writing the board of said institution and direct PDIC to proceed with its liquidation. Only until then can PDIC commence to sell or dispose of the assets of closed banks.

As liquidator, PDIC is mandated to convert the assets of the closed bank into cash at maximum possible recovery in the best interest of the bank's creditors. The funds to be generated from the liquidation, net of the expenses incurred in carrying out receivership/liquidation, are to be distributed to the creditors in accordance with the legal priorities set by law upon approval by the Liquidation Court. Remaining funds and other assets, if any, are to be distributed as interests or compensatory damages to the creditors, at the legal rate of 12% per annum from the date of bank closure to the date of payment of their principal claims. Any surplus funds and other assets remaining after payment to the creditors are for distribution to the bank's stockholders.

Legal Amendments Pertaining to Receivership and Liquidation

PDIC faced numerous challenges in pursuit of receivership and liquidation of closed banks. Foreclosure of mortgages, filing of collection cases against delinquent debtors, and consolidation of titles could not be initiated in several closed banks because of deficiency or absence of relevant documentation. Other problems involved adverse claims filed against the assets, including the lack of funds to defray the costs involved. These lessons learned paved the way for the significant reforms inscribed in RA 9302. Presented below are the major problems pertaining to receivership and liquidation with corresponding remedies obtained from recent legislative amendments.

Inability to Take Over Closed Bank

There have been many instances when bank owners resisted or refused to turn over the closed bank to PDIC. The problem is compounded when owners question the closure order in court, leading PDIC to get embroiled in a legal battle that could take several years to resolve. Such was the case of Rural Bank of Sara (Iloilo), Inc., which was ordered closed in 1994 but was resolved by the courts only in 2003. The case of Rural Bank of Muntinlupa (Rizal), a bank ordered closed in 1978, remains pending in court.

A temporary restraining order (TROs), prohibiting, albeit temporarily, the implementation of the closure order of the Monetary Board further delays the process of receivership or liquidation until the closure order is upheld in court.

The issuance of TROs prevented the takeover of the Rural Bank of Tuy, Inc. and the Rural Bank of Balayan, Inc. in Batangas, both ordered closed in year 2000, until their cases were resolved more than three (3) years after closure. By the time PDIC was finally able to take-over these banks, vital bank records, such as general and subsidiary ledgers, credit files, and securities and collaterals, could no longer be located. The records on outstanding deposit liabilities in the bank premises were inadequate.

Although PDIC was able to take over Orient Commercial Banking Corporation (1998) and Unitrust Development Bank (2002), it was prevented from liquidating the closed banks' assets pending the resolution of the court cases questioning their closure.

Under Sec. 24 of R.A. 9302, no court, except the Court of Appeals and the Supreme Court, may issue TROs, preliminary injunctions or preliminary mandatory injunctions against the Corporation. This prohibition applies to all cases, disputes or controversies filed against the Corporation by a private party, the insured bank, or any of its shareholders. The Supreme Court may issue a restraining order or injunction when the matter is of extreme urgency involving a constitutional issue, such that unless a TRO is issued, grave injustice and irreparable injury will arise. The party applying for the issuance of a restraining order or injunction shall file a bond in an amount to be fixed by the Supreme Court, which bond shall accrue in favor of the Corporation if the court should finally decide that the applicant was not entitled to the relief sought. [Under Sec. 24 of RA 9302, states that] *"Any restraining order or injunction issued in violation of this section is void and of no force and effect and any judge who has issued the same shall suffer the penalty of suspension of at least sixty (60) days without pay."*

Another constraint encountered by PDIC in implementing takeover operations is the inability of the Corporation to take control of bank records and assets. It must be noted that in some instances, non-availability of bank records and assets is temporary, resulting, not from any hostile action of the owners or employees, but from records and assets being withheld from the receiver by the lessors of the premises because of the unpaid rentals prior to bank closure, as was the case of the Rural Bank of Tacloban (Leyte) (1995). Prior to the new law, PDIC was not authorized to pay obligations of the closed bank such as rent as of closure. Instead the creditor, such as the lessor, would have to wait for liquidation to be approved by Court to be able to recover past due rental payments following the priority of creditors set by law. The new law empowers the Corporation to "*pay accrued utilities, rentals and salaries of employees of the closed bank, for a period not exceeding three months, from available funds of the closed bank.*" This provision is intended to ensure continuous delivery of utility services such as power, telephone, and water including use of bank premises. These payments will have to be sourced from funds of the closed bank.

Managing Assets under Liquidation

While PDIC, under its old charter, can collect loans and other claims of the closed bank, this has become an expressed authority in RA 9302. The amendment provides that the Corporation can modify, compromise or restructure the terms and conditions of such loans or claims as may be deemed advantageous to the interest of the claimants of the closed bank.

Dealing with Court Cases

PDIC is no longer hindered from filing collection cases to recover receivables of closed banks due to insufficiency of closed bank's funds to pay docket fees. The amended Charter provides that in all cases or actions filed by the Corporation as receiver for the recovery of, or involving any asset of the closed bank, payment of all docket and other court fees shall be deferred until the action is terminated with finality. With this new provision, the receiver will now be able to file a case to recover assets of a closed bank even if the bank does not have the funds to defray the costs of filing the case. Such deferred payment, however, will constitute a first lien on any judgment, if favorable, or against administrative expenses during the distribution of the assets of the closed bank, if unfavorable.

PDIC is now expressly allowed to hire or retain private counsels as may be necessary.

Assets not subject of Garnishment, Levy or Attachment

Despite the provision of Section 30 of the New Central Bank Act that the assets of a closed bank are in *custodia legis* or "in the hands of the receiver and liquidator", PDIC is impeded in performing its duty of preserving and recovering the assets of some banks because some courts still issue orders of garnishment, levy, or attachment in favor of parties who have no preference under the law over the concerned assets.

An important provision under the new law explicitly reversed this constraint with a provision that "*from the time the closed bank is placed under receivership, its assets shall not be subject to attachment, garnishment, execution, levy or any other court processes*". Any judge, officer of the court or any person who shall issue, order, process or cause the issuance or implementation of the writ of garnishment, levy, attachment or execution shall be held liable under the law.

Labor Issues

PDIC likewise has to deal with problems pertaining to labor claims. There have been instances when terminated employees of closed banks resort to filing cases with the Department of Labor and Employment to compel the receiver/ liquidator to pay their claims even if the closed bank does not have sufficient funds to pay them. Where such payments have to be made, PDIC would make advances, exposing PDIC to further losses. Problems have also arisen when bank officers, employees, directors and stockholders continued to transact business in the name of the closed bank despite notice to them that their authority had ceased as of take-over by the receiver.

The new law provides that even if recognized under the Labor Code, PDIC is empowered to suspend or terminate the employment of officers and employees and that payment for separation pay or benefits accruing as of bank closure may be made only after the bank has been placed under liquidation, and subject to the availability of funds after considering reasonable receivership and liquidation expenses.

High Interest Rates on Deposits

When banks get into distressed situation and unable to service withdrawals, they attract deposits by offering above market interest rates. In the past, PDIC had to honor these terms and pay interest rates which were unusually higher than prevailing market rates. This did not only expose the Deposit Insurance Fund to bigger losses, but also brought about serious moral hazard on the part of depositors. The new law has rectified this situation such that if the stipulated interest on deposits is unusually high relative to prevailing applicable interest rates, the PDIC, as receiver, may reduce interest to a reasonable rate; provided that any modification or reduction shall apply only to unpaid interest. This will minimize moral hazard arising from depositors' propensity to chase after high interest rate, mindless of the risk of bank failure since their deposits and corresponding interest income are guaranteed by PDIC anyway. With this amendment, problem banks may no longer continue attracting deposits by out-pricing other banks at the expense of the Deposit Insurance Fund.

Conclusion

Considerable gains have been achieved with the enactment of RA 9302 in terms of minimizing losses to the Deposit Insurance Fund. It would have been ideal if PDIC's crucial proposal to allow liquidation immediately after closure obtained legislative support as this would have paved the way for the resolution of failed banks through purchase and assumption by bigger and stronger banks, allowing seamless closures. Such measure would have enabled a bank closed on a Friday to reopen on a Monday as a unit of an existing strong bank as being done in more advanced deposit insurance systems. Furthermore, the provision on legal immunity presented by PDIC to Congress as one of its proposed amendments did not pass legislative scrutiny. In order for PDIC to efficiently and effectively undertake its mandate without fear of reprisal, there is a need to cloak its employees with legal immunity from suit for acts performed in their official capacity, and in good faith, without negligence.

While it may take more time for PDIC to be so empowered, RA 9302 has succeeded in clarifying a lot of the gray areas in the receivership and liquidation powers of the PDIC which present obstacles to prompt liquidation.

* *Written by* ***Anna Liese L. Roque,*** *Research Specialist, Research Department.*

Charter Amendments pertaining to receivership and liquidation

NEW PROVISIONS	SECTION
• To suspend the powers, functions and duties, as well as all allowances, remunerations and perquisites of the closed bank's directors, officers, and stockholders, and the relevant provisions of its Articles of Incorporation and By-laws. This power will prevent the directors, officers and stockholders from transacting business in the name of the bank after it has been taken over by PDIC.	10b
• To bring suits to enforce liabilities to or recover assets of the closed bank.	10c-1
• To suspend or terminate the employment of officers and employees of the closed bank; Provided, that payment of separation pay benefits shall be made only after the closed bank has been placed under liquidation pursuant to the order of the Monetary Board under Section 30 of R.A. 7653, and such payment shall be made from available funds of the bank after deducting reasonable expenses for receivership and liquidation.	10c-3
• To pay accrued utilities, rentals and salaries of personnel of the closed bank, for a period not exceeding three (3) months, from available funds of the closed bank. This power will reduce, if not eliminate, problems of records being withheld from the receiver by lessors because of unpaid rentals; and utility providers refusing to continue services to the bank because of unpaid billings.	10c-4
• To collect loans and other claims of the closed bank, and for the purpose, modify, compromise, or restructure the terms and conditions of such loans or claims as may be deemed advantageous to the interest of the creditors and claimants of the closed bank. While this is considered an inherent power of the receiver and liquidator, it is necessary to explicitly provide this power in the law to enable the receiver/liquidator to perform its function more efficiently and effectively.	10c-5
• To hire or retain private counsels as may be necessary.	10c-6
• To borrow or obtain a loan, or mortgage, pledge or encumber any asset of the closed bank, when necessary to preserve or prevent dissipation of the assets, or to redeem foreclosed assets of the closed bank, or to minimize losses to the depositors and creditors. This resolves the problem of inability of closed banks to redeem an encumbered valuable property due to lack of available funds.	10c-7
• If the stipulated interest on deposits is unusually high relative to prevailing applicable interest rate, the Corporation as receiver may exercise such powers that include a reduction of the interest rate to a reasonable rate; provided that any modification or reduction shall apply only to unpaid interest. Interest rates on deposit liabilities of many banks closed prior to R.A. 9302 were unusually high compared with the market rates prevailing as of the dates of closure of the banks. In the absence then of a power to reduce these unusually high interest rates, PDIC had no alternative but to pay the deposits thereby unreasonably reducing the deposit insurance fund. This situation has been addressed with the vesting in the receiver the power to reduce the unusually high interest rates.	10c-8
• In all cases or actions filed by the Corporation as receiver for the recovery of, or involving any asset of the closed bank, payment of all docket and other court fees shall be deferred until the action is terminated with finality. With this new provision, the receiver may now be able to file a case to recover assets of a closed bank even if the bank does not have the funds to defray the costs of filing the case.	11

Overview

In our pursuit to provide professionals and other interested parties with valuable banking and deposit information derived from the performance of our mandates, we present in the following pages our bank statistics as of June 30, 2004.

The statistics offer an overview of the current banking industry profile and performance from which conclusions may be drawn. This can also serve as springboard for further research.

This issue contains selected balance sheet and income statement accounts and key performance ratios for the Philippine Banking System, further broken down into Commercial, Thrift and Rural Banks. Current data summarized in bar graphs showing various capital, asset quality, earnings and liquidity indicators are also included.

Aside from the financial data, statistics on bank deposits, particularly as to size of domestic deposit accounts are also provided. The same are disaggregated into type of deposit (e.g., demand, savings, time and foreign currency deposits), amount (clusters ranging from below P15,000 to over P250,000) and geographic distribution among the country's 17 regions. The tables and figures presented are as follows:

Caveat

The material provided herewith presents data obtained from financial reports submitted periodically by banks in compliance with existing regulations of the Philippine Deposit Insurance Corporation (PDIC). Submitted reports which are subjected to an internal process of system validating financial disclosures, are the responsibility of banks' Board and management.

In cases of non-submission of a report by a bank for the current period, the bank's most recent available report of the same type is used in the generation of industry statistics (please see notes on unsubmitted reports on page 34). As a result of this methodology, there may be discrepancies when comparing the same account entry against different statistics generated by the PDIC sourced from different types of reports. Certain discrepancies with statistics of other regulatory agencies mainly attributed to timing differences in data generation and frequency in accessing data sources may arise as well. Other details and/or explanation provided in the material should also be noted as these may contain important information on how the figures were derived or whether there were any procedural refinements applied to the data.

For further queries and information on presented statistics, please contact the Bank Performance Monitoring Department at telephone numbers (632) 841-4206, 841-4208 and 841-4000 locals 4211 to 4213, by fax at (632) 812-4116 and 813-3815, by e-mail at bpmc@pdic.gov.ph or write to PDIC 2228 Chino Roces Ave., Makati City 1231, Philippines. Other relevant banking industry data may also be accessed on-line at www.pdic.gov.ph lodged under Bank Statistics.

Table 1

Statistics of the Philippine Banking System (PBS)

As of June 30, 2004 (Amounts in Million Pesos)

Accounts	COMMERCIAL BANKS (KB)					THRIFT BANKS (TB)					RURAL BANKS (RB)			GRAND TOTAL
	EKB	Non - EKB	Foreign	SGB	Total	SMB	PDB	SLA	MFO	Total	Coops	Regular & MFO	Total	
STATEMENT OF CONDITION														
Quick Assets	692,866	111,972	263,243	182,077	1,250,158	57,555	12,949	4,812	73	75,389	1,169	24,466	25,634	1,351,181
Gross Loans	1,139,755	119,878	299,732	231,204	1,790,569	124,409	31,695	5,416	122	161,642	4,412	53,574	57,987	2,010,197
Interest Earning Assets	1,616,710	205,460	544,139	377,829	2,744,137	164,702	38,040	8,908	167	211,816	4,801	66,596	71,397	3,027,350
Risk Assets	1,755,934	219,653	456,207	284,135	2,715,930	172,141	48,121	10,787	128	231,179	5,473	78,269	83,742	3,030,850
Risk Weighted Assets	1,184,489	163,490	280,034	214,021	1,842,034	134,171	40,757	10,552	121	185,602	5,473	78,269	83,742	2,111,377
Non-Performing Loans	190,646	19,910	15,359	32,792	258,709	13,746	5,568	947	20	20,281	538	6,719	7,256	286,246
ROPOA	149,863	24,648	2,579	21,445	198,535	19,922	8,354	2,587	-	30,863	248	7,722	7,970	237,369
Non-Performing Assets	343,710	44,632	18,051	54,300	460,693	33,982	13,967	3,574	20	51,543	786	14,450	15,236	527,472
Total Restructured Loans	96,050	8,564	5,325	28,247	138,186	1,834	2,049	106	0	3,989	125	684	809	142,984
Current Restructured Loans	57,300	5,132	2,699	15,888	80,989	1,192	1,642	62	0	2,896	108	486	594	84,479
Past Due Restructured Loans	38,749	3,432	2,655	12,360	57,196	642	407	43	-	1,093	17	198	215	58,504
Gross Problematic Asset	405,248	50,409	20,765	70,786	547,209	35,669	17,890	3,769	20	57,348	895	14,939	15,834	620,392
Loan Loss Provision	97,402	11,457	14,805	24,938	148,602	5,695	2,560	362	17	8,635	234	2,716	2,950	160,187
Total Allowance	108,012	12,501	15,360	27,320	163,193	6,571	2,826	401	17	9,816	238	2,943	3,181	176,190
TOTAL ASSETS	2,187,935	287,197	573,573	440,678	3,489,383	213,341	60,471	14,932	229	288,973	6,038	89,782	95,820	3,874,175
Total Deposits	1,567,242	189,510	310,530	247,833	2,315,116	161,074	38,305	9,184	45	208,608	3,616	64,697	68,314	2,592,038
Total Borrowings	173,545	43,320	79,224	132,145	428,233	11,930	12,938	1,880	35	26,784	1,097	6,241	7,338	462,354
TOTAL LIABILITIES	1,909,908	250,136	487,253	402,180	3,049,477	182,521	54,088	11,622	87	248,319	5,010	75,787	80,798	3,378,593
Capital for Capital to Risk Asset Ratio	201,713	29,381	82,614	35,799	349,507	25,754	4,170	3,183	134	33,241	986	13,610	14,596	397,344
Qualifying Capital	176,295	33,300	85,328	37,781	332,704	27,599	4,205	2,782	135	34,721	986	13,610	14,596	382,021
Capital for NPL, NPA & GPA to Capital Ratio	314,493	42,131	98,054	63,325	518,003	32,859	7,053	3,600	152	43,664	1,253	16,581	17,834	579,501
BOOKED CAPITAL	278,028	37,061	86,320	38,498	439,906	30,819	6,383	3,310	142	40,654	1,027	13,995	15,022	495,582
INCOME AND EXPENSES														
Interest Income	57,446	9,120	16,805	14,460	97,831	8,703	2,125	551	35	11,414	367	5,138	5,505	114,750
Interest Expense	30,564	5,037	6,142	4,918	46,661	3,949	1,476	278	3	5,705	195	2,114	2,309	54,676
Net Interest Income	26,882	4,083	10,663	9,542	51,170	4,754	649	273	32	5,708	172	3,024	3,196	60,074
Other Operating Income	17,765	1,605	2,418	2,256	24,045	1,392	367	127	9	1,895	166	1,289	1,456	27,396
Other Operating Expense	30,588	4,349	8,864	7,674	51,476	5,368	1,263	420	36	7,087	255	3,476	3,730	62,293
Provisions for Loan Losses	4,411	632	1,272	2,290	8,605	684	8	13	7	712	12	112	124	9,441
Net Operating Income	9,648	708	2,945	1,834	15,135	94	-255	-32	-2	-195	72	725	797	15,737
Non-Operating Income	2,306	296	1,518	205	4,325	273	267	25	0	565	8	250	258	5,148
Net Income Before Tax	11,954	1,003	4,463	2,040	19,460	367	12	-7	-2	370	79	975	1,054	20,885
Net Income After Tax	9,919	785	3,021	1,990	15,715	156	-52	-21	-1	81	79	862	941	16,737
RATIOS (In Percentage)														
Capital to Risk Assets	11.5	13.4	18.1	12.6	12.9	15.0	8.7	29.5	104.4	14.4	18.0	17.4	17.4	13.1
Risk-Based Capital Adequacy Ratio	14.9	20.4	30.5	17.7	18.1	20.6	10.3	26.4	111.6	18.7	18.0	17.4	17.4	18.1
Non-Performing Loans to Capital	60.6	47.3	15.6	51.8	49.9	41.8	79.0	26.3	13.2	46.4	42.9	40.5	40.7	49.4
Non-Performing Assets to Capital	109.3	105.9	18.4	85.7	88.9	103.4	198.0	99.3	13.2	118.0	62.7	87.1	85.4	91.0
Gross Problematic Assets to Capital	128.9	119.6	21.2	111.8	105.6	108.6	253.7	104.7	13.2	131.3	71.4	90.1	88.8	107.1
Non-Performing Loans to Gross Loans	16.7	16.6	5.1	14.2	14.4	11.0	17.6	17.5	16.4	12.5	12.2	12.5	12.5	14.2
Non-Performing Assets to Total Assets+Total Allow.	15.0	14.9	3.1	11.6	12.6	15.5	22.1	23.3	8.1	17.3	12.5	15.6	15.4	13.0
Loan Loss Provision to Non-Performing Loans	51.1	57.5	96.9	76.0	57.4	41.4	46.0	38.3	86.8	42.6	43.4	40.4	40.7	56.0
Gross Loans to Total Assets+Total Allow.	49.6	40.0	50.9	49.4	49.0	56.6	50.1	35.3	49.5	54.1	70.3	57.8	58.6	49.6
Quick Assets to Total Assets	31.7	39.0	45.9	41.3	35.8	27.0	21.4	32.2	31.8	26.1	19.4	27.3	26.8	34.9
Return on Equity	9.1	4.8	10.3	9.6	9.0	0.3	-3.0	-0.8	0.0	-0.3	13.8	12.2	12.3	8.3
Return on Assets	1.2	0.6	1.6	0.9	1.2	0.0	-0.4	-0.2	0.0	0.0	2.3	1.9	1.9	1.1
Net Interest Margin	3.2	4.2	4.2	5.0	3.7	6.1	3.6	6.2	43.8	5.7	7.5	9.8	9.7	4.0
Operating Expense to Operating Income	78.4	87.6	77.5	84.5	79.9	98.5	125.1	108.0	104.2	102.6	78.8	83.2	82.9	82.0
Operating Expense excl. Provisions to Operating Income	68.5	76.5	67.8	65.0	68.4	87.3	124.3	104.9	87.4	93.2	75.3	80.6	80.2	71.2
Non-Operating Income to Net Income Before Tax	19.3	29.5	34.0	10.1	22.2	74.4	2166.3	-336.7	2.4	152.6	9.5	25.7	24.4	24.6
Quick Assets to Total Deposits	44.2	59.1	84.8	73.5	54.0	35.7	33.8	52.4	162.3	36.1	32.3	37.8	37.5	52.1
Gross Loans to Total Deposits	72.7	63.3	96.5	93.3	77.3	77.2	82.7	59.0	272.2	77.5	122.0	82.8	84.9	77.6
No. of PDIC Member Banks	12	9	18	3	42	31	26	30	2	89	44	720	764	895

Source: Consolidated Statement of Condition and Consolidated Statement of Income & Expenses.

Note: SGB refers to Specialized Gov't Banks (Land Bank of the Philippines, Development Bank of the Philippines and Al-Amanah Islamic Investment Bank which are considered Commercial Banks.)

Zero (0) means value is less than five hundred thousand (500T)

Table 2

Rural Bank Statistics by Region

As of June 30, 2004 (Amounts in Million Pesos)

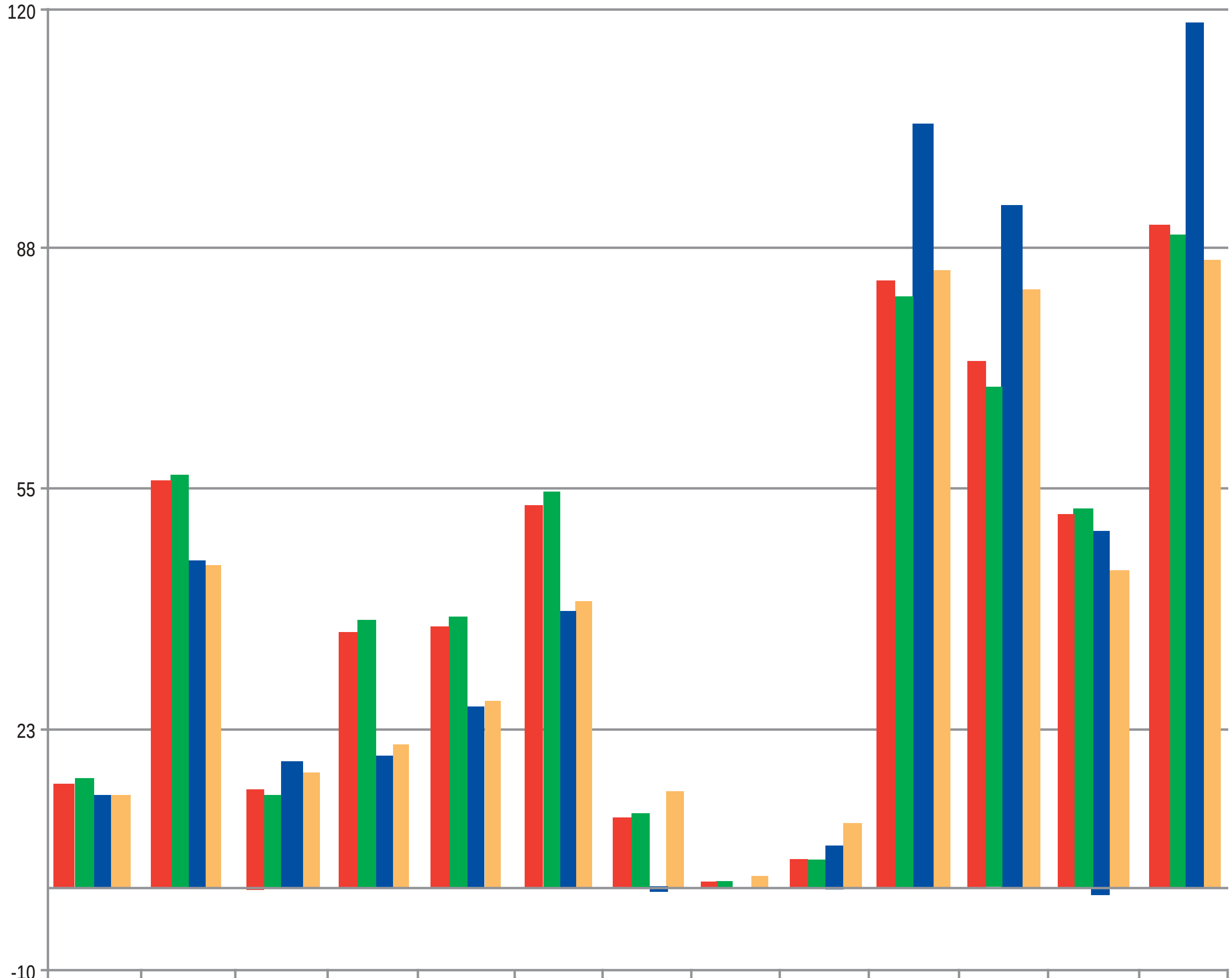
Accounts	Regions																	GRAND TOTAL
	NCR	1	2	3	4-A	4-B	5	6	7	8	9	10	11	12	CAR	ARMM	CARAGA	
STATEMENT OF CONDITION																		
Quick Assets	1,929	1,918	1,080	4,157	7,145	747	665	1,084	1,822	434	296	1,363	1,439	412	590	43	510	25,634
Gross Loans	5,013	4,949	3,086	9,801	12,041	1,344	3,480	3,008	2,879	862	1,040	3,201	2,509	1,252	1,006	91	2,422	57,987
Interest Earning Assets	6,288	5,625	3,448	12,114	16,061	1,696	3,644	3,289	3,970	1,088	1,194	3,888	3,578	1,426	1,409	119	2,559	71,397
Risk Assets	7,137	6,752	4,354	14,595	20,069	1,974	4,268	3,783	4,634	1,138	1,272	4,107	3,531	1,682	1,440	124	2,881	83,742
Non-Performing Loans	235	823	527	1,167	1,851	207	313	460	424	108	65	404	119	165	136	5	249	7,256
ROPOA	613	529	415	1,427	3,192	109	257	163	431	20	31	295	129	128	108	1	121	7,970
Non-Performing Assets	848	1,352	942	2,594	5,051	316	571	623	855	128	95	700	248	293	244	5	370	15,236
Total Restructured Loans	139	48	53	120	85	13	98	36	19	50	1	53	51	12	6	-	26	809
Current Restructured Loans	110	39	40	75	52	3	94	24	6	48	0	33	35	11	4	-	18	594
Past Due Restructured Loans	28	10	13	45	33	9	4	12	13	2	1	20	16	1	2	-	8	215
Gross Problematic Asset	958	1,390	982	2,672	5,103	320	665	648	861	176	96	733	284	307	248	5	388	15,834
Loan Loss Provision	132	251	175	376	636	79	149	218	235	75	42	237	93	70	61	6	115	2,950
Total Allowance	142	281	188	399	681	82	154	230	259	78	45	271	101	78	64	6	122	3,181
TOTAL ASSETS	8,217	7,634	4,793	16,350	23,304	2,222	4,607	4,274	5,515	1,333	1,395	4,931	4,287	1,877	1,721	138	3,221	95,820
Total Deposits	6,224	5,851	2,871	11,561	18,118	1,547	3,196	3,134	4,255	898	733	2,299	3,242	1,155	1,258	57	1,913	68,314
Total Borrowings	314	404	803	1,489	911	129	609	309	193	126	231	812	131	216	70	29	562	7,338
TOTAL LIABILITIES	7,261	6,719	4,076	13,710	19,910	1,794	4,020	3,699	4,703	1,092	1,077	3,405	3,678	1,511	1,400	92	2,651	80,798
Capital for Capital to Risk Asset Ratio	917	880	716	2,580	3,269	425	573	562	791	235	317	1,466	591	357	321	46	550	14,596
Capital for NPL, NPA & GPA to Capital Ratio	1,060	1,166	905	2,991	3,964	508	735	793	1,053	316	362	1,737	693	438	386	52	673	17,834
BOOKED CAPITAL	957	915	717	2,640	3,394	428	587	576	811	241	317	1,526	609	367	322	46	570	15,022
INCOME AND EXPENSES																		
Interest Income	536	368	288	838	1,174	128	267	249	405	78	95	340	192	133	89	14	311	5,505
Interest Expense	266	171	127	381	520	52	156	106	186	37	27	89	43	32	25	2	91	2,309
Net Interest Income	269	198	161	457	653	76	111	143	220	41	68	250	149	101	64	12	221	3,196
Other Operating Income	82	118	111	250	278	33	50	75	82	17	26	89	69	38	28	5	105	1,456
Other Operating Expense	327	266	218	551	790	74	144	178	283	62	67	234	149	101	62	7	218	3,730
Provision for Loan Losses	6	6	6	13	28	1	3	4	4	1	11	10	2	2	1	0	26	124
Net Operating Income	19	44	48	142	113	34	14	37	14	-5	17	96	67	36	30	10	82	797
Non-Operating Income	39	13	17	54	68	2	3	5	34	1	1	8	2	7	0	-	6	258
Net Income Before Tax	57	56	65	196	181	36	16	41	49	-5	18	104	69	42	30	10	88	1,054
Net Income After Tax	47	54	56	192	160	35	15	39	37	-6	16	83	57	39	29	10	77	941
RATIOS (In Percentage)																		
Capital to Risk Assets	12.9	13.0	16.5	17.7	16.3	21.5	13.4	14.8	17.1	20.7	24.9	35.7	16.7	21.2	22.3	37.2	19.1	17.4
Non-Performing Loans to Capital	22.2	70.5	58.2	39.0	46.7	40.8	42.6	57.9	40.3	34.2	17.9	23.3	17.1	37.6	35.4	8.9	37.0	40.7
Non-Performing Assets to Capital	80.0	115.9	104.0	86.7	127.4	62.3	77.7	78.5	81.1	40.4	26.3	40.3	35.8	67.0	63.4	9.8	55.0	85.4
Gross Problematic Assets to Capital	90.4	119.2	108.5	89.3	128.7	63.0	90.5	81.6	81.7	55.7	26.4	42.2	40.9	70.0	64.4	9.8	57.6	88.8
Non-Performing Loans to Gross Loans	4.7	16.6	17.1	11.9	15.4	15.4	9.0	15.3	14.7	12.5	6.2	12.6	4.7	13.2	13.5	5.0	10.3	12.5
Non-Performing Assets to Total Assets+Total Allow.	10.1	17.1	18.9	15.5	21.1	13.7	12.0	13.8	14.8	9.1	6.6	13.4	5.7	15.0	13.7	3.5	11.1	15.4
Loan Loss Provision to Non-Performing Loans	56.4	30.5	33.3	32.2	34.4	38.3	47.5	47.5	55.3	69.6	64.8	58.6	77.8	42.2	44.6	125.5	46.2	40.7
Gross Loans to Total Assets+Total Allowance	60.0	62.5	62.0	58.5	50.2	58.4	73.1	66.8	49.9	61.1	72.3	61.5	57.2	64.1	56.4	63.5	72.4	58.6
Quick Assets to Total Assets	23.5	25.1	22.5	25.4	30.7	33.6	14.4	25.4	33.0	32.6	21.2	27.6	33.6	22.0	34.3	31.2	15.8	26.8
Return on Equity	17.2	7.7	12.0	13.4	12.6	12.3	1.8	6.3	8.1	3.5	11.9	10.3	20.6	17.4	14.4	30.0	24.9	12.3
Return on Assets	2.0	0.9	1.8	2.2	1.7	2.4	0.2	0.9	1.3	0.7	2.7	3.2	3.1	3.6	2.8	10.1	4.3	1.9
Net Interest Margin	9.6	7.2	9.6	8.2	8.5	9.4	6.7	9.3	11.4	9.9	12.1	14.0	11.3	15.3	9.8	18.2	17.9	9.7
Operating Expense to Operating Income	94.7	86.2	82.2	79.9	87.8	69.0	91.5	83.2	95.3	109.4	82.0	71.7	69.3	74.1	68.1	40.3	74.8	82.9
Operating Expense excl. Provisions to Operating Income	93.0	84.2	80.1	78.0	84.8	67.9	89.6	81.5	93.8	107.8	70.6	68.9	68.4	72.7	67.2	39.6	66.9	80.2
Non-Operating Income to Net Income Before Tax	67.4	22.4	25.5	27.5	37.6	5.8	16.2	11.1	70.7	-12.0	4.5	7.6	3.4	15.4	0.2	0.00	6.7	24.4
Quick Assets to Total Deposits	31.0	32.8	37.6	36.0	39.4	48.3	20.8	34.6	42.8	48.3	40.4	59.3	44.4	35.7	46.9	75.9	26.7	37.5
Gross Loans to Total Deposits	80.5	84.6	107.5	84.8	66.5	86.9	108.9	96.0	67.7	96.0	141.9	139.2	77.4	108.4	80.0	160.9	126.6	84.9
No. of PDIC Member Banks	27	68	33	105	146	27	50	77	57	27	16	47	21	21	19	4	19	764

Source: Consolidated Statement of Condition and Consolidated Statement of Income & Expenses.
Zero (0) means value is less than five hundred thousand (500T).

Figure 1

Selected Financial Ratios of the Philippine Banking System (in %)

(as of June 30, 2004)



	NPL to Gross Loans	LLP to NPL	NPA to Total Assets	Total Allow. to NPA	QA to Total Assets	QA to Deposits	Return on Equity	Return on Assets	Net Interest Margin	Oper. Efficiency Ratio	Oper. Efficiency w/o Prov	NPL to Capital	NPA to Capital
PBS	14.24	55.96	13.02	33.40	34.88	52.13	8.30	1.09	4.00	82.01	71.22	49.40	91.02
KB	14.44	57.44	12.61	35.42	35.83	54.00	9.00	1.16	3.73	79.88	68.44	49.94	88.94
TB	12.55	42.58	17.25	19.04	26.09	36.14	-0.32	-0.05	5.68	102.56	93.20	46.45	118.04
RB	12.51	40.65	15.39	20.88	26.75	37.52	12.31	1.94	9.66	82.87	80.20	40.69	85.43

Source: Consolidated Statement of Condition and Consolidated Statement of Income & Expenses.

Table 3

Domestic Deposit Liabilities by Size of Account

As of June 30, 2004

(Amounts in Million Pesos)

A. PHILIPPINE BANKING SYSTEM

DEPOSIT SIZE	TOTAL DEPOSITS				DEMAND/ NOW DEPOSITS		SAVINGS DEPOSITS		TIME DEPOSITS		FCDs	
	Account	% to Total Account	Amount	% to Total Amount	Account	Amount	Account	Amount	Account	Amount	Account	Amount
P 15,000 & Below	19,214,140	74.8%	46,349	1.8%	1,151,811	5,316	17,712,424	39,167	112,723	596	237,182	1,270
P 15,000.01 - P 40,000	2,057,808	8.0%	51,473	2.0%	221,753	5,578	1,622,714	39,968	72,406	1,870	140,935	4,057
P 40,000.01 - P 60,000	895,268	3.5%	44,574	1.7%	80,586	3,961	565,607	27,835	155,022	7,839	94,053	4,939
P 60,000.01 - P 80,000	470,906	1.8%	32,327	1.3%	51,307	3,550	316,846	21,677	31,209	2,164	71,544	4,936
P 80,000.01 - P 100,000	511,396	2.0%	47,485	1.8%	35,417	3,174	253,762	23,049	155,138	15,259	67,079	6,002
P 100,000.01 - P 150,000	705,637	2.7%	83,411	3.2%	61,192	7,432	446,197	51,851	54,194	6,328	144,054	17,801
P 150,000.01 - P 200,000	321,280	1.3%	55,208	2.1%	36,948	6,367	177,305	30,326	25,447	4,686	81,580	13,829
P 200,000.01 - P 250,000	245,853	1.0%	54,559	2.1%	29,147	6,577	154,368	33,836	18,523	4,307	43,815	9,879
Over P 250,000	1,261,213	4.9%	2,162,955	83.9%	152,448	274,124	667,372	936,975	123,390	196,951	318,003	754,905
Total	25,683,501	100.0%	2,578,382	100.0%	1,820,609	316,079	21,916,595	1,204,685	748,052	239,999	1,198,245	817,620

B. COMMERCIAL BANKS

DEPOSIT SIZE	TOTAL DEPOSITS				DEMAND/ NOW DEPOSITS		SAVINGS DEPOSITS		TIME DEPOSITS		FCDs	
	Account	% to Total Account	Amount	% to Total Amount	Account	Amount	Account	Amount	Account	Amount	Account	Amount
P 15,000 & Below	12,716,808	71.0%	34,889	1.5%	861,692	4,161	11,594,973	29,207	38,929	313	221,214	1,207
P 15,000.01 - P 40,000	1,606,193	9.0%	40,487	1.8%	188,641	4,759	1,242,509	30,812	40,644	1,036	134,399	3,881
P 40,000.01 - P 60,000	718,144	4.0%	35,802	1.6%	69,986	3,440	439,098	21,666	120,199	6,034	88,861	4,663
P 60,000.01 - P 80,000	380,877	2.1%	26,106	1.1%	45,088	3,120	249,721	17,059	17,961	1,227	68,107	4,700
P 80,000.01 - P 100,000	370,715	2.1%	34,106	1.5%	32,464	2,910	181,418	16,324	92,545	9,118	64,288	5,753
P 100,000.01 - P 150,000	541,547	3.0%	64,004	2.8%	54,504	6,622	345,905	40,300	27,999	3,289	113,139	13,793
P 150,000.01 - P 200,000	269,941	1.5%	46,218	2.0%	33,368	5,747	143,014	24,400	15,084	2,784	78,475	13,287
P 200,000.01 - P 250,000	213,131	1.2%	47,064	2.0%	26,233	5,895	130,936	28,524	14,001	3,186	41,961	9,459
Over P 250,000	1,097,560	6.1%	1,972,851	85.7%	141,034	260,801	568,732	820,781	92,291	161,232	295,503	730,037
Total	17,914,916	100.0%	2,301,527	100.0%	1,453,010	297,455	14,896,306	1,029,073	459,653	188,218	1,105,947	786,781

Source : Consolidated Report on Deposit Liabilities by Size of Account.
Note: Domestic deposits exclude deposits in overseas branches of Philippine banks.

Table 3

Domestic Deposit Liabilities by Size of Account *(cont.)*

As of June 30, 2004

(Amounts in Million Pesos)

C. THRIFT BANKS

DEPOSIT SIZE	TOTAL DEPOSITS				DEMAND/ NOW DEPOSITS		SAVINGS DEPOSITS		TIME DEPOSITS		FCDs	
	Account	% to Total Account	Amount	% to Total Amount	Account	Amount	Account	Amount	Account	Amount	Account	Amount
P 15,000 & Below	1,965,408	73.7%	5,106	2.4%	200,940	902	1,717,269	4,084	31,231	58	15,968	63
P 15,000.01 - P 40,000	220,958	8.3%	5,467	2.6%	27,832	693	177,522	4,360	9,068	238	6,536	175
P 40,000.01 - P 60,000	95,095	3.6%	4,760	2.3%	9,160	451	63,342	3,104	17,401	929	5,192	276
P 60,000.01 - P 80,000	49,552	1.9%	3,416	1.6%	5,386	372	35,036	2,403	5,693	403	3,437	237
P 80,000.01 - P 100,000	57,355	2.1%	5,385	2.6%	2,374	212	34,988	3,233	17,202	1,691	2,791	249
P 100,000.01 - P 150,000	104,369	3.9%	12,510	6.0%	5,920	718	59,199	6,809	8,335	976	30,915	4,008
P 150,000.01 - P 200,000	31,172	1.2%	5,449	2.6%	3,181	549	20,414	3,523	4,472	834	3,105	542
P 200,000.01 - P 250,000	25,910	1.0%	5,905	2.8%	2,752	646	18,945	4,305	2,359	535	1,854	420
Over P 250,000	118,604	4.4%	160,564	77.0%	10,242	12,596	67,583	95,942	18,279	27,159	22,500	24,868
Total	2,668,423	100.0%	208,562	100.0%	267,787	17,138	2,194,298	127,762	114,040	32,823	92,298	30,839

D. RURAL BANKS

DEPOSIT SIZE	TOTAL DEPOSITS				DEMAND/ NOW DEPOSITS		SAVINGS DEPOSITS		TIME DEPOSITS	
	Account	% to Total Account	Amount	% to Total Amount	Account	Amount	Account	Amount	Account	Amount
P 15,000 & below	4,531,924	88.9%	6,354	9.3%	89,179	253	4,400,182	5,877	42,563	225
P 15,000.01 - P 40,000	230,657	4.5%	5,519	8.1%	5,280	126	202,683	4,797	22,694	596
P 40,000.01 - P 60,000	82,029	1.6%	4,011	5.9%	1,440	70	63,167	3,065	17,422	876
P 60,000.01 - P 80,000	40,477	0.8%	2,806	4.1%	833	57	32,089	2,215	7,555	534
P 80,000.01 - P 100,000	83,326	1.6%	7,994	11.7%	579	52	37,356	3,491	45,391	4,451
P 100,000.01 - P 150,000	59,721	0.2%	6,897	10.1%	768	92	41,093	4,742	17,860	2,063
P 150,000.01 - P 200,000	20,167	0.4%	3,541	5.2%	399	71	13,877	2,402	5,891	1,068
P 200,000.01 - P 250,000	6,812	0.1%	1,631	2.4%	162	36	4,487	1,008	2,163	587
Over P 250,000	45,049	0.9%	29,539	43.3%	1,172	727	31,057	20,252	12,820	8,560
Total	5,100,162	100.0%	68,293	100.0%	99,812	1,485	4,825,991	47,850	174,359	18,959

Source : Consolidated Report on Deposit Liabilities by Size of Account.
Notes: Domestic deposits exclude deposits in overseas branches of Philippine banks.
No recorded Foreign Currency Deposits (FCDs) for Rural Banks.

Table 4

Regional Distribution of Domestic Deposits

As of June 30, 2004

(Amounts in Million Pesos)

A. PHILIPPINE BANKING SYSTEM

AREA	No. of Banking Offices	TOTAL DEPOSITS		DEMAND/ NOW DEPOSITS		SAVINGS DEPOSITS		TIME DEPOSITS		FCDs	
		Account	Amount	Account	Amount	Account	Amount	Account	Amount	Account	Amount
TOTAL NCR	2,597	9,575,544	1,726,733	968,143	201,743	7,528,732	695,671	380,634	159,001	698,035	670,319
City of Manila	580	1,774,831	327,809	186,539	32,314	1,401,250	155,604	47,130	30,019	139,912	109,872
City of Muntinlupa	84	247,997	33,140	28,166	4,462	189,843	12,616	9,434	5,749	20,554	10,313
Kalookan City	90	323,059	44,651	32,910	4,589	262,409	26,198	8,322	4,908	19,418	8,956
Las Piñas City	65	221,584	14,548	20,925	1,693	181,390	8,756	4,540	994	14,729	3,104
Makati City	391	2,093,853	699,466	222,267	76,826	1,497,281	179,514	185,388	59,394	188,917	383,732
Malabon City	36	116,896	12,862	10,803	1,097	97,117	8,476	2,123	995	6,853	2,333
Mandaluyong City	104	508,415	64,915	40,232	6,402	438,990	33,547	5,253	2,467	23,940	22,498
Marikina City	57	199,280	16,071	17,169	1,996	162,520	8,238	7,445	2,677	12,146	3,160
Navotas	20	66,433	5,146	5,941	713	56,632	3,348	841	387	3,019	698
Parañaque City	130	444,377	44,035	42,437	6,065	364,150	19,866	9,942	3,632	27,848	14,472
Pasay City	78	371,245	35,031	26,320	4,745	324,606	18,294	5,311	2,150	15,008	9,842
Pasig City	153	541,995	78,184	59,835	13,586	435,241	36,549	16,209	7,159	30,710	20,889
Pateros	10	41,387	2,103	2,863	258	36,203	1,337	988	141	1,333	367
Quezon City	634	2,139,742	266,701	216,391	37,405	1,718,841	149,407	54,554	24,987	149,956	54,903
San Juan	88	241,159	62,570	35,904	6,248	157,239	23,934	15,874	11,153	32,142	21,234
Taguig	22	83,999	3,595	3,430	846	77,862	1,598	249	33	2,458	1,117
Valenzuela City	55	159,292	15,908	16,011	2,495	127,158	8,389	7,031	2,195	9,092	2,829
TOTAL PROVINCIAL	4,816	16,091,538	851,573	852,317	114,407	14,372,798	508,806	366,213	81,058	500,210	147,301
(Regions)											
1	365	1,187,960	59,058	40,606	5,715	1,066,470	39,568	34,422	4,579	46,462	9,195
2	203	565,336	24,201	25,307	3,570	521,154	16,842	7,757	1,564	11,118	2,225
3	799	2,266,825	131,646	128,142	13,432	1,978,496	80,092	64,329	11,733	95,858	26,389
4-A	1,145	3,557,698	180,120	184,489	19,865	3,172,552	101,991	82,197	17,884	118,460	40,380
4-B	118	390,832	12,191	15,637	2,430	365,528	7,706	4,742	881	4,925	1,174
5	217	765,630	29,348	43,887	4,938	688,337	18,638	17,163	2,737	16,243	3,036
6	386	1,424,796	78,522	83,233	10,596	1,257,804	49,944	31,396	7,071	52,363	10,911
7	483	1,573,527	136,548	104,097	18,216	1,357,689	69,019	46,220	17,646	65,521	31,668
8	126	498,655	21,801	23,291	4,603	458,482	13,930	7,136	1,296	9,746	1,973
9	113	457,808	27,006	24,123	4,241	414,339	17,427	8,837	2,727	10,509	2,611
10	240	892,107	36,298	46,933	7,549	811,716	21,236	15,432	3,475	18,026	4,038
11	236	867,615	50,138	54,284	7,800	775,095	30,148	16,184	5,069	22,052	7,120
12	159	631,314	23,673	31,661	4,254	573,535	15,916	18,324	1,585	7,794	1,918
CAR	108	447,922	26,222	20,593	3,760	403,741	16,951	6,769	1,741	16,819	3,770
ARMM	19	74,147	2,211	4,608	428	68,541	1,662	575	58	423	64
CARAGA	99	489,366	12,589	21,426	3,009	459,319	7,735	4,730	1,014	3,891	831
TOTAL PHILIPPINES	7,413	25,667,082	2,578,306	1,820,460	316,150	21,901,530	1,204,478	746,847	240,059	1,198,245	817,620

Source: Report on Breakdown of Deposit Liabilities by Type (BDL) submitted by member banks.

Notes: Domestic deposits exclude deposits in overseas branches of Philippine banks.
Banking offices refer to Head Offices, Branches, Money Shops, Extension Offices and Saving Agencies of banks as reported.

Table 4

Regional Distribution of Domestic Deposits (cont.)

As of June 30, 2004

(Amounts in Million Pesos)

B. COMMERCIAL BANKS

AREA	No. of Banking Offices	TOTAL DEPOSITS		DEMAND/ NOW DEPOSITS		SAVINGS DEPOSITS		TIME DEPOSITS		FCDs	
		Account	Amount	Account	Amount	Account	Amount	Account	Amount	Account	Amount
TOTAL NCR	2,012	8,176,462	1,589,230	819,715	189,903	6,413,255	616,596	306,580	135,908	636,912	646,823
City of Manila	478	1,589,204	306,490	164,248	30,708	1,253,377	143,244	40,235	26,052	131,344	106,486
City of Muntinlupa	57	187,996	27,654	21,315	4,000	143,049	9,886	6,392	4,819	17,240	8,950
Kalookan City	69	275,222	39,126	27,290	4,358	223,725	22,218	6,767	4,335	17,440	8,214
Las Piñas City	37	168,171	10,646	14,445	1,432	138,944	6,183	2,393	567	12,389	2,464
Makati City	321	1,828,616	665,689	197,643	72,929	1,277,243	160,286	174,638	55,330	179,092	377,143
Malabon City	29	101,460	11,457	9,579	1,012	83,981	7,478	1,910	828	5,990	2,139
Mandaluyong City	86	475,733	62,614	35,723	6,184	413,193	32,009	3,975	2,250	22,842	22,171
Marikina City	38	152,930	13,116	13,345	1,806	125,802	6,767	3,110	1,679	10,673	2,864
Navotas	16	59,668	4,811	4,914	663	51,158	3,164	687	310	2,909	673
Parañaque City	107	378,094	38,787	35,302	5,552	313,037	17,238	5,655	2,559	24,100	13,439
Pasay City	62	331,075	32,757	22,288	4,610	290,955	16,823	4,094	1,873	13,738	9,450
Pasig City	99	423,097	68,264	48,290	12,785	340,662	31,757	6,562	4,499	27,583	19,224
Pateros	5	20,235	1,325	1,815	199	17,221	834	77	6	1,122	286
Quezon City	490	1,787,963	234,171	176,185	34,599	1,447,458	130,304	33,829	19,757	130,491	49,511
San Juan	64	205,052	55,217	31,094	5,875	132,307	19,951	11,851	9,237	29,800	20,153
Taguig	13	59,312	3,152	2,824	804	53,983	1,260	224	23	2,281	1,065
Valenzuela City	41	132,634	13,954	13,415	2,386	107,160	7,193	4,181	1,783	7,878	2,592
TOTAL PROVINCIAL	2,197	9,740,247	712,443	633,880	107,623	8,486,231	412,540	151,101	52,322	469,035	139,958
(Regions)											
1	143	727,749	48,448	31,052	5,340	638,628	32,399	13,997	2,143	44,072	8,566
2	70	338,147	20,726	20,919	3,504	302,522	13,854	3,667	1,154	11,039	2,214
3	330	1,351,312	103,645	84,788	12,092	1,156,575	60,544	19,596	5,896	90,353	25,113
4-A	443	1,944,381	134,512	116,185	17,619	1,701,523	71,339	23,150	8,058	103,523	37,495
4-B	39	159,629	9,826	11,697	2,320	141,902	5,947	1,400	411	4,630	1,147
5	97	422,723	23,961	36,475	4,744	364,800	14,737	5,378	1,497	16,070	2,982
6	221	1,078,062	71,657	73,994	10,345	936,164	45,692	17,139	5,193	50,765	10,427
7	255	1,092,941	120,621	78,560	17,430	923,993	57,541	27,816	14,953	62,572	30,697
8	71	352,410	20,021	22,096	4,577	316,379	12,522	4,288	973	9,647	1,949
9	77	348,500	25,508	22,986	4,142	308,595	16,281	6,499	2,490	10,420	2,596
10	116	483,106	32,156	37,309	7,261	420,309	18,345	8,036	2,645	17,452	3,906
11	136	516,032	44,804	41,191	7,176	445,242	27,198	8,661	3,768	20,938	6,662
12	89	393,773	21,493	24,760	4,087	356,253	14,460	5,201	1,080	7,559	1,865
CAR	57	293,021	22,632	15,432	3,618	258,127	14,315	3,781	1,256	15,681	3,444
ARMM	14	60,621	2,084	4,608	428	55,042	1,537	548	56	423	64
CARAGA	38	177,840	10,349	11,828	2,941	160,177	5,830	1,944	747	3,891	831
TOTAL PHILIPPINES	4,209	17,916,709	2,301,673	1,453,595	297,526	14,899,486	1,029,136	457,681	188,230	1,105,947	786,781

Source: Report on Breakdown of Deposit Liabilities by Type (BDL) submitted by member banks.
Notes: Domestic deposits exclude deposits in overseas branches of Philippine banks.
Banking offices refer to Head Offices, Branches, Money Shops, Extension Offices and Saving Agencies of banks as reported.

Table 4

Regional Distribution of Domestic Deposits (cont.)
As of June 30, 2004
(Amounts in Million Pesos)

C. THRIFT BANKS

AREA	No. of Banking Offices	TOTAL DEPOSITS		DEMAND/ NOW DEPOSITS		SAVINGS DEPOSITS		TIME DEPOSITS		FCDs	
		Account	Amount	Account	Amount	Account	Amount	Account	Amount	Account	Amount
TOTAL NCR	520	1,242,328	132,560	143,229	11,773	980,019	76,282	57,957	21,010	61,123	23,496
City of Manila	102	185,627	21,318	22,291	1,606	147,873	12,360	6,895	3,967	8,568	3,385
City of Muntinlupa	21	49,863	5,330	5,727	458	38,302	2,629	2,520	880	3,314	1,363
Kalookan City	19	40,304	5,418	5,613	231	31,402	3,911	1,311	533	1,978	742
Las Piñas City	21	41,751	3,411	5,499	255	32,673	2,175	1,239	341	2,340	639
Makati City	67	259,766	32,718	24,563	3,897	215,641	18,683	9,737	3,549	9,825	6,589
Malabon City	6	14,279	1,381	1,224	85	11,986	976	206	126	863	194
Mandaluyong City	17	29,715	2,017	4,233	216	24,006	1,360	378	113	1,098	327
Marikina City	12	31,163	2,432	3,179	185	25,129	1,346	1,382	604	1,473	296
Navotas	3	4,164	314	1,024	50	2,877	163	153	76	110	24
Parañaque City	21	60,090	4,881	7,062	511	47,321	2,451	1,959	885	3,748	1,033
Pasay City	16	40,170	2,274	4,032	135	33,651	1,471	1,217	277	1,270	392
Pasig City	35	82,606	8,776	10,567	788	65,634	4,278	3,278	2,044	3,127	1,666
Pateros	3	5,673	510	741	56	4,384	300	337	72	211	81
Quezon City	142	339,620	32,457	40,146	2,804	259,400	19,045	20,609	5,217	19,465	5,391
San Juan	23	35,401	7,293	4,741	373	24,301	3,924	4,017	1,916	2,342	1,081
Taguig	1	883	127	79	15	606	49	21	10	177	52
Valenzuela City	11	21,253	1,903	2,508	108	14,833	1,159	2,698	399	1,214	238
TOTAL PROVINCIAL	742	1,426,095	76,002	124,558	5,366	1,214,279	51,480	56,083	11,813	31,175	7,343
(Regions)											
1	36	77,692	4,745	5,927	292	66,949	3,235	2,426	590	2,390	629
2	8	20,552	738	1,916	27	17,661	647	896	52	79	12
3	158	234,753	15,797	21,652	1,091	189,248	10,884	18,348	2,547	5,505	1,275
4-A	253	438,428	26,788	43,354	1,937	359,360	16,997	20,777	4,970	14,937	2,884
4-B	22	63,552	858	3,279	108	59,633	678	345	45	295	27
5	29	91,800	2,206	6,169	184	83,389	1,659	2,069	309	173	53
6	41	57,162	3,658	6,108	230	47,057	2,154	2,399	789	1,598	484
7	103	232,787	11,719	17,267	702	207,811	8,780	4,760	1,266	2,949	971
8	7	18,981	754	1,025	24	17,734	674	123	33	99	24
9	5	9,234	681	574	93	8,504	571	67	2	89	15
10	29	63,868	2,128	5,330	206	57,250	1,517	714	274	574	132
11	26	54,343	2,723	5,578	246	45,822	1,419	1,829	601	1,114	458
12	8	16,264	699	1,794	97	13,878	433	357	117	235	53
CAR	11	33,489	2,262	4,091	120	27,297	1,600	963	216	1,138	326
ARMM	-	-	-	-	-	-	-	-	-	-	-
CARAGA	6	13,190	246	494	11	12,686	234	10	2	-	-
TOTAL PHILIPPINES	1,262	2,668,423	208,562	267,787	17,138	2,194,298	127,762	114,040	32,823	92,298	30,839

Source: Report on Breakdown of Deposit Liabilities by Type (BDL) submitted by member banks.
Notes: Domestic deposits exclude deposits in overseas branches of Philippine banks.
Banking offices refer to Head Offices, Branches, Money Shops, Extension Offices and Saving Agencies of banks as reported.
No recorded Foreign Currency Deposits (FCDs) for Rural Banks.
Zero (0) means value is less than five hundred thousand (500T).

Table 4

Regional Distribution of Domestic Deposits (cont.)

As of June 30, 2004

(Amounts in Million Pesos)

D. RURAL BANKS

AREA	No. of Banking Offices	TOTAL DEPOSITS		DEMAND/ NOW DEPOSITS		SAVINGS DEPOSITS		TIME DEPOSITS	
		Account	Amount	Account	Amount	Account	Amount	Account	Amount
TOTAL NCR	65	156,754	4,944	5,199	67	135,458	2,793	16,097	2,083
City of Manila	-	-	-	-	-	-	-	-	-
City of Muntinlupa	6	10,138	155	1,124	4	8,492	101	522	50
Kalookan City	2	7,533	108	7	0	7,282	69	244	39
Las Piñas City	7	11,662	491	981	7	9,773	398	908	86
Makati City	3	5,471	1,060	61	0	4,397	544	1,013	515
Malabon City	1	1,157	23	-	-	1,150	23	7	0
Mandaluyong City	1	2,967	284	276	2	1,791	178	900	104
Marikina City	7	15,187	523	645	5	11,589	124	2,953	393
Navotas	1	2,601	21	3	0	2,597	21	1	0
Parañaque City	2	6,193	366	73	2	3,792	176	2,328	188
Pasay City	-	-	-	-	-	-	-	-	-
Pasig City	19	36,292	1,143	978	13	28,945	513	6,369	617
Pateros	2	15,479	268	307	2	14,598	203	574	63
Quezon City	2	12,159	73	60	2	11,983	57	116	14
San Juan	1	706	60	69	0	631	59	6	0
Taguig	8	23,804	316	527	27	23,273	288	4	0
Valenzuela City	3	5,405	51	88	1	5,165	37	152	13
TOTAL PROVINCIAL *(Regions)*	1,877	4,925,196	63,127	93,879	1,418	4,672,288	44,786	159,029	16,923
1	186	382,519	5,864	3,627	83	360,893	3,935	17,999	1,846
2	125	206,637	2,738	2,472	38	200,971	2,342	3,194	358
3	311	680,760	12,203	21,702	250	632,673	8,664	26,385	3,289
4-A	449	1,174,889	18,820	24,950	310	1,111,699	13,655	38,270	4,856
4-B	57	167,651	1,507	661	2	163,993	1,081	2,997	424
5	91	251,107	3,182	1,243	10	240,148	2,242	9,716	930
6	124	289,572	3,208	3,131	22	274,583	2,098	11,858	1,088
7	125	247,799	4,208	8,270	84	225,885	2,698	13,644	1,426
8	48	127,264	1,026	170	2	124,369	734	2,725	290
9	31	100,074	817	563	6	97,240	575	2,271	236
10	95	345,133	2,014	4,294	83	334,157	1,375	6,682	556
11	74	297,240	2,610	7,515	378	284,031	1,532	5,694	700
12	62	221,277	1,481	5,107	70	203,404	1,023	12,766	388
CAR	40	121,412	1,328	1,070	22	118,317	1,037	2,025	269
ARMM	5	13,526	127	-	-	13,499	125	27	2
CARAGA	54	298,336	1,993	9,104	57	286,456	1,671	2,776	264
TOTAL PHILIPPINES	1,942	5,081,950	68,071	99,078	1,485	4,807,746	47,579	175,126	19,006

Source: Report on Breakdown of Deposit Liabilities by Type (BDL) submitted by member banks.
Notes: Domestic deposits exclude deposits in overseas branches of Philippine banks.
Banking offices refer to Head Offices, Branches, Money Shops, Extension Offices and Saving Agencies of banks as reported.
No recorded Foreign Currency Deposits (FCDs) for Rural Banks.
Zero (0) means value is less than five hundred thousand (500T).

The Philippine Archipelago

Table 5

Percentage Share of Domestic Deposit per Region

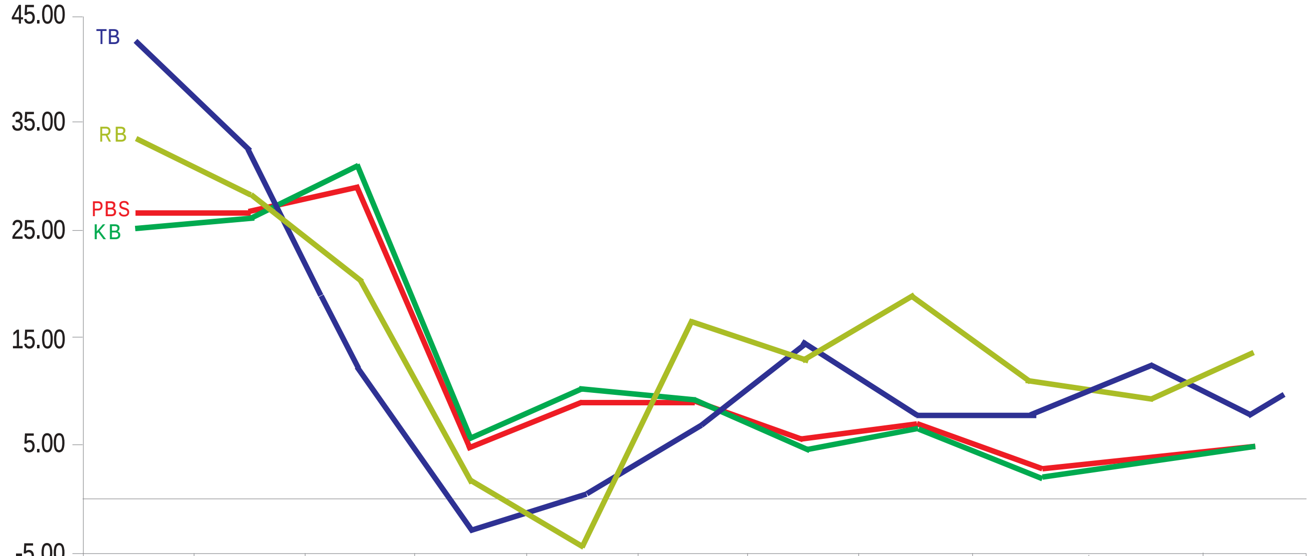
As of June 30, 2004

Region	Bank Type	No. of Offices	Deposit				
			Amount *(In Millions)* A	% to Industry	Accounts *(In Absolute Figure)* B	Average Size *(In Millions)* C=A/B	% Share In Region
NCR	KB	2,012	1,589,230	61.6	8,176,462	0.19	92.0
	TB	520	132,560	5.1	1,242,328	0.11	7.7
	RB	65	4,944	0.2	156,754	0.03	0.3
	Sub-Total	2,597	1,726,733	66.9	9,575,544	0.18	100.0
I	KB	143	48,448	1.9	727,749	0.07	82.0
	TB	36	4,745	0.2	77,692	0.06	8.0
	RB	186	5,864	0.2	382,519	0.02	10.0
	Sub-Total	365	59,058	2.3	1,187,960	0.05	100.0
II	KB	70	20,726	0.8	338,147	0.06	85.6
	TB	8	738	*	20,552	0.04	3.1
	RB	125	2,738	0.1	206,637	0.01	11.3
	Sub-Total	203	24,201	0.9	565,336	0.04	100.0
III	KB	330	103,645	4.0	1,351,312	0.08	78.7
	TB	158	15,797	0.6	234,753	0.07	12.0
	RB	311	12,203	0.5	680,760	0.02	9.3
	Sub-Total	799	131,646	5.1	2,266,825	0.06	100.0
IV-A	KB	443	134,512	5.2	1,994,381	0.07	74.7
	TB	253	26,788	1.0	438,428	0.06	14.9
	RB	449	18,820	0.7	1,174,889	0.02	10.4
	Sub-Total	1,145	180,120	6.9	3,557,698	0.05	100.0
IV-B	KB	39	9,826	0.4	156,629	0.06	80.6
	TB	22	858	*	63,552	0.01	7.0
	RB	57	1,507	0.1	167,651	0.01	12.4
	Sub-Total	118	12,191	0.5	390,832	0.03	100.0
V	KB	97	23,961	0.9	422,723	0.06	81.6
	TB	29	2,206	0.1	91,800	0.02	7.5
	RB	91	3,182	0.1	251,107	0.01	10.8
	Sub-Total	217	29,348	1.1	765,630	0.04	100.0
VI	KB	221	71,657	2.8	1,078,062	0.07	91.3
	TB	41	3,658	0.1	57,162	0.06	4.7
	RB	124	3,208	0.1	289,572	0.01	4.1
	Sub-Total	386	78,522	3.0	1,424,796	0.06	100.0
VII	KB	255	120,621	4.7	1,092,941	0.11	88.3
	TB	103	11,719	0.5	232,787	0.05	8.6
	RB	125	4,208	0.2	247,799	0.02	3.1
	Sub-Total	483	136,548	5.4	1,573,527	0.09	100.0
VIII	KB	71	20,021	0.8	352,410	0.06	91.8
	TB	7	754	*	18,981	0.04	3.5
	RB	48	1,026	*	127,264	0.01	4.7
	Sub-Total	126	21,801	0.8	498,655	0.04	100.0
IX	KB	77	25,508	1.0	348,500	0.07	94.5
	TB	5	681	*	9,234	0.07	2.5
	RB	31	817	*	100,074	0.01	3.0
	Sub-Total	113	27,006	1.0	457,808	0.06	100.0
X	KB	116	32,156	1.2	483,106	0.07	88.6
	TB	29	2,128	0.1	63,868	0.03	5.9
	RB	95	2,014	0.1	345,133	0.01	5.5
	Sub-Total	240	36,298	1.4	892,107	0.04	100.0
XI	KB	136	44,804	1.7	516,032	0.09	89.4
	TB	26	2,723	0.1	54,343	0.05	5.4
	RB	74	2,610	0.1	297,240	0.01	5.2
	Sub-Total	236	50,138	1.9	867,615	0.06	100.0
XII	KB	89	21,493	0.8	393,773	0.05	90.8
	TB	8	699	*	16,264	0.04	3.0
	RB	62	1,481	0.1	221,277	0.01	6.3
	Sub-Total	159	23,673	0.9	631,314	0.04	100.0
CAR	KB	57	22,632	0.9	293,021	0.08	86.3
	TB	11	2,262	0.1	33,489	0.07	8.6
	RB	40	1,328	0.1	121,412	0.01	5.1
	Sub-Total	108	26,222	1.1	447,922	0.06	100.0
ARMM	KB	14	2,084	0.1	60,621	0.03	94.3
	TB	-	-	-	-	-	-
	RB	5	127	*	13,526	0.01	5.7
	Sub-Total	19	2,211	0.1	74,147	0.03	100.0
CARAGA	KB	39	10,349	0.4	177,840	0.06	82.2
	TB	6	246	*	13,190	0.02	2.0
	RB	54	1,993	0.1	298,336	0.01	15.8
	Sub-Total	99	12,589	0.5	489,366	0.03	100.0
TOTAL		7,413	2,578,306	100.0	25,667,082	0.10	

Source: Report on Breakdown of Deposit Liabilities by Type (BDL) submitted by member banks.
*Notes: *Signifies insignificant deposit amount relative to total domestic deposit.*

Figure 2

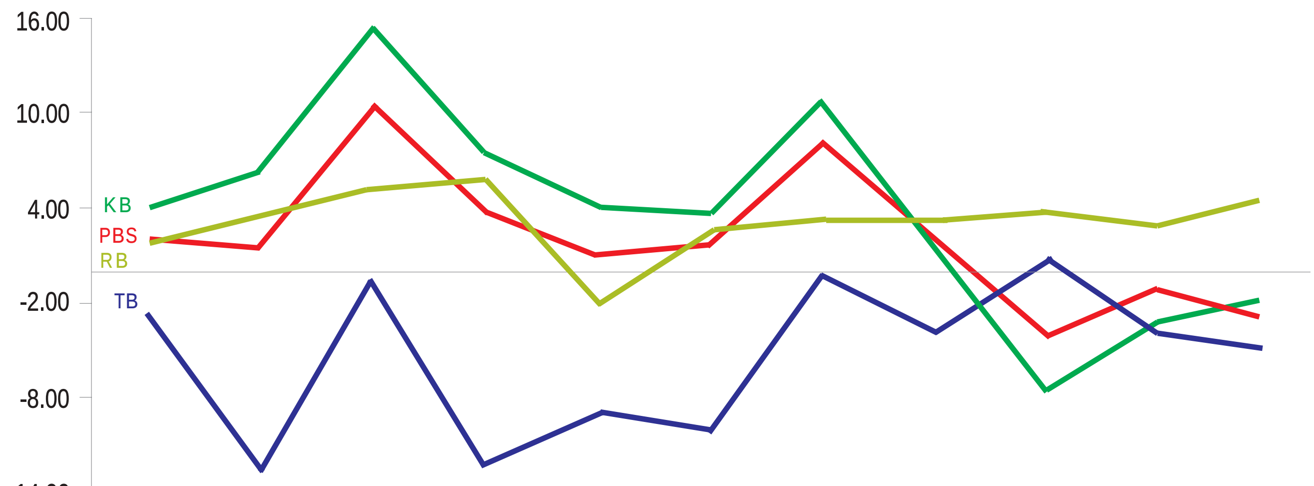
Growth in Amounts *(in %)*



	Dec-1995	Dec-1996	Dec-1997	Dec-1998	Dec-1999	Dec-2000	Dec-2001	Dec-2002	Jun-2003	Dec-2003	Jun-2004
PBS	26.79	26.83	28.99	4.86	9.25	9.22	5.66	6.92	1.69	3.21	5.00
KB	25.22	26.20	31.03	5.64	10.33	9.28	4.84	6.63	1.26	2.71	4.78
TB	42.51	32.62	12.02	-2.80	0.11	6.41	14.36	7.67	5.28	8.29	5.89
RB	33.56	28.28	20.47	1.64	-4.27	16.48	13.81	16.32	7.26	5.98	9.77

Figure 3

Growth in Accounts *(in %)*



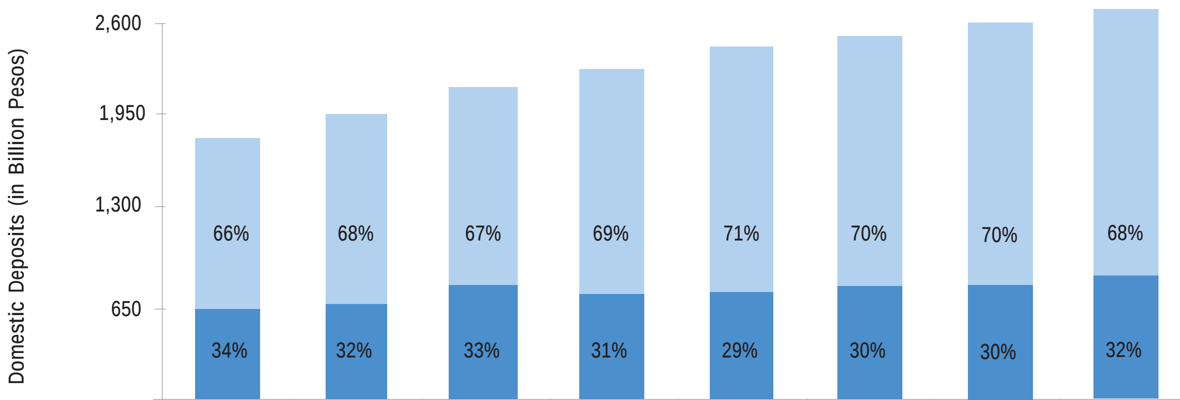
	Dec-1995	Dec-1996	Dec-1997	Dec-1998	Dec-1999	Dec-2000	Dec-2001	Dec-2002	Jun-2003	Dec-2003	Jun-2004
PBS	2.02	1.54	10.47	3.81	1.03	1.67	8.12	2.30	-3.16	-1.00	-1.28
KB	4.01	6.33	15.54	7.49	4.11	3.65	10.77	3.08	-4.92	-1.55	-2.50
TB	-2.72	-12.60	-0.68	-12.20	-9.02	-10.05	-0.23	-3.95	0.11	-1.68	-0.67
RB	1.77	3.28	5.34	5.89	-2.09	2.65	3.28	2.88	2.21	1.49	2.94

Source : Consolidated Report on Domestic Deposit Liabilities by Size of Account.
Notes : From June 2003 onwards, growth rates are computed on a semestral basis.

Figure 4

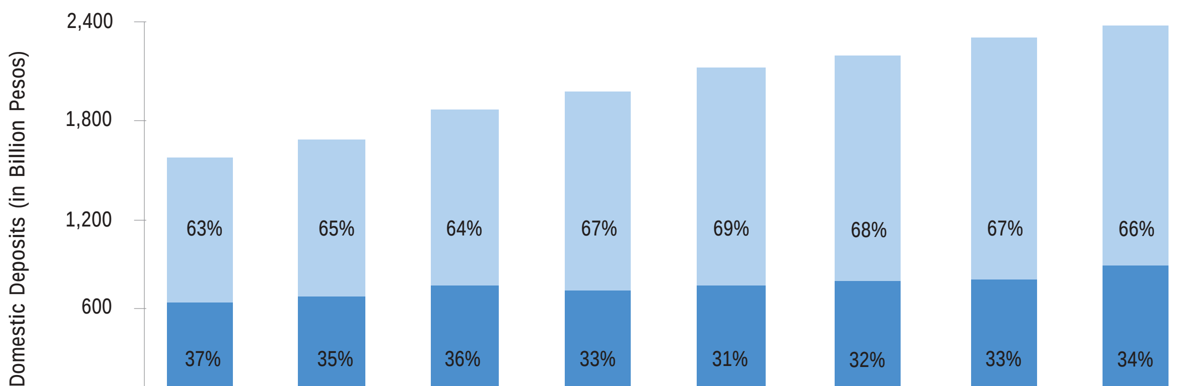
Deposit Movement with Selected Variables Related to its Growth

A. PHILIPPINE BANKING SYSTEM



	Dec-1998	Dec-1999	Dec-2000	Dec-2001	Dec-2002	Jun-2003	Dec-2003	Jun-2004
Total Deposits	1,735.67	1,896.13	2,070.94	2,188.15	2,339.54	2,379.16	2,455.63	2,578.38
Peso Denominated Dep.	1,145.79	1,289.96	1,384.14	1,514.97	1,654.59	1,670.64	1,709.61	1,760.76
FCDU Peso Equiv.	589.88	606.17	686.80	673.18	684.95	708.53	746.02	817.64
US$ Value of FCDU	15.07	15.04	13.74	13.02	12.86	13.24	13.42	14.55
BSP Guiding Fx Ref. Rate	39.15	40.30	49.99	51.69	53.25	53.52	55.59	56.18
Derived Int. Rate (%)	8.08	6.00	5.87	5.92	3.60	3.30	3.39	3.37
# of Bkg. Offices	7,515	7,592	7,402	7,402	7,293	7,338	7,351	7,413
Tot. Dep. to Bkg. Offc.	0.23	0.25	0.28	0.30	0.32	0.32	0.33	0.35

B. COMMERCIAL BANKS



	Dec-1998	Dec-1999	Dec-2000	Dec-2001	Dec-2002	Jun-2003	Dec-2003	Jun-2004
Total Deposits	1,566.88	1,728.78	1,889.28	1,980.64	2,112.04	2,138.57	2,196.46	2,301.53
Peso Denominated Dep.	985.15	1,130.48	1,215.29	1,323.82	1,446.94	1,453.77	1,474.25	1,514.75
FCDU Peso Equiv.	581.74	598.30	674.00	656.83	665.10	684.80	722.20	786.78
US$ Value of FCDU	14.86	14.85	13.48	12.71	12.49	12.79	12.99	14.01
BSP Guiding Fx Ref. Rate	39.15	40.30	49.99	51.69	53.25	53.52	55.59	56.18
Derived Int. Rate (%)	7.69	5.72	5.70	5.75	3.42	3.15	3.22	3.18
# of Bkg. Offices	4,086	4,184	4,120	4,175	4,128	4,172	4,172	4,209
Tot. Dep. to Bkg. Offc.	0.38	0.41	0.46	0.47	0.51	0.51	0.53	0.55

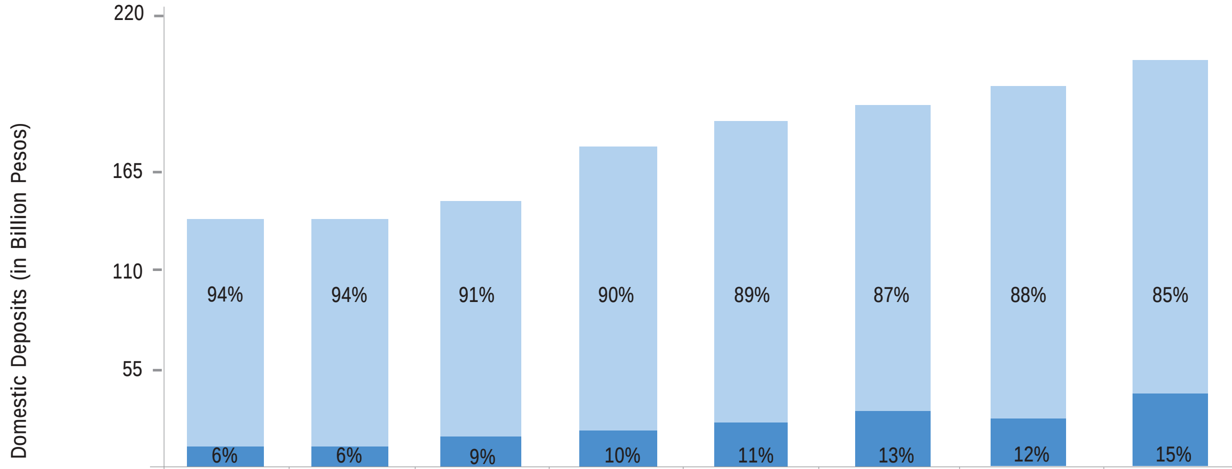
Source : Consolidated Report on Domestic Deposit Liabilities by Size of Account and Report on Breakdown of Deposit Liabilities by Type (BDL) for number (#) of banking offices.

Notes: Domestic deposits exclude deposits in overseas branches of Philippine banks.
Banking offices refer to Head Offices, Branches, Money Shops, Extension Offices and Saving Agencies of banks as reported.

Figure 4

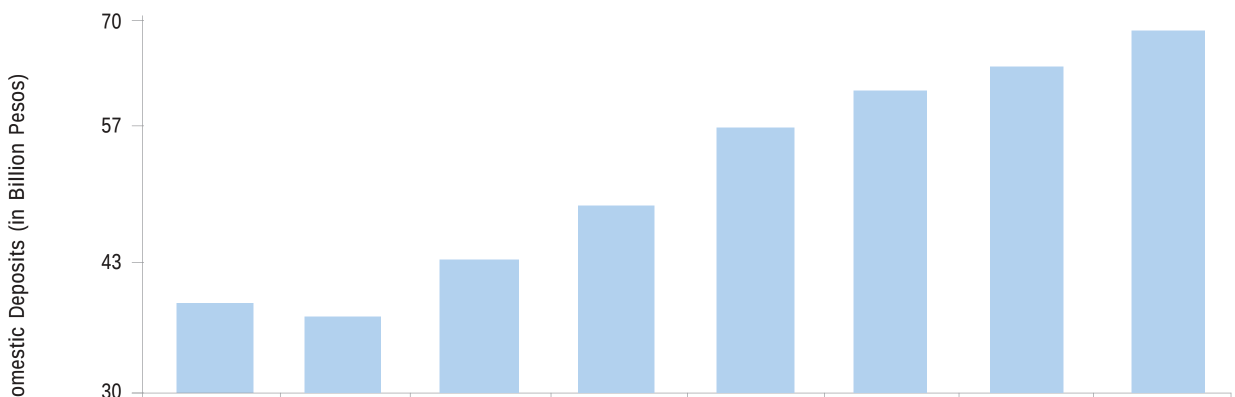
Deposit Movement with Selected Variables Related to its Growth (cont.)

C. THRIFT BANKS



	Dec-1998	Dec-1999	Dec-2000	Dec-2001	Dec-2002	Jun-2003	Dec-2003	Jun-2004
Total Deposits	131.71	131.86	140.31	160.46	172.77	181.89	196.96	208.56
Peso Denominated Dep.	123.56	123.99	127.51	144.11	152.92	158.17	173.14	177.72
FCDU Peso Equiv.	8.14	7.87	12.80	16.35	19.85	23.73	23.82	30.84
US$ Value of FCDU	0.21	0.20	0.26	0.32	0.37	0.44	0.43	0.55
BSP Guiding Fx Ref. Rate	39.15	40.30	49.99	51.69	53.25	53.52	55.59	56.18
Derived Int. Rate (%)	11.96	8.48	7.27	7.57	4.80	4.08	4.57	4.73
# of Bkg. Offices	1,485	1,504	1,378	1,332	1,270	1,264	1,281	1,262
Tot. Dep. to Bkg. Offc.	0.09	0.09	0.10	0.12	0.14	0.14	0.15	0.17

D. RURAL BANKS



	Dec-1998	Dec-1999	Dec-2000	Dec-2001	Dec-2002	Jun-2003	Dec-2003	Jun-2004
Peso Denom. Dep.	37.08	35.49	41.34	47.05	54.73	58.70	62.21	68.29
Derived Int. Rate (%)	10.38	9.54	8.62	8.19	7.01	6.36	6.05	5.87
# of Bkg. Offices	1,944	1,904	1,904	1,895	1,895	1,902	1,898	1,942
Tot. Dep. to Bkg. Offc.	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.04

Source : Consolidated Report on Domestic Deposit Liabilities by Size of Account and Report on Breakdown of Deposit Liabilities by Type (BDL) for number (#) of banking offices.

Notes: No recorded Foreign Currency Deposits (FCDs) for Rural Banks.
Domestic deposits exclude deposits in overseas branches of Philippine banks.
Banking offices refer to Head Offices, Branches, Money Shops, Extension Offices and Saving Agencies of banks as reported.

No. of Unsubmitted Reports
As of June 30, 2004

Bank Type	Type of Report				
	SOC	SIE	RBCAR	C - 16	BDL
Commercial Banks	-	-	-	-	-
Sub - Total	**-**	**-**	**-**	**-**	**-**
Thrift Banks	1	1	2	-	1
Sub - Total	**1**	**1**	**2**	**-**	**1**
Rural Banks					
NCR	-	-	-	-	-
Region 1	-	1	3	-	-
Region 2	-	-	-	-	1
Region 3	2	2	10	1	5
Region 4A	-	2	9	4	4
Region 4B	1	1	3	3	3
Region 5	2	2	5	2	-
Region 6	3	4	11	5	4
Region 7	-	-	5	1	1
Region 8	1	1	6	1	-
Region 9	-	-	1	-	-
Region 10	1	1	6	1	-
Region 11	-	-	1	-	1
Region 12	-	-	-	-	2
CAR	3	2	2	2	1
ARMM	1	1	2	2	-
CARAGA	-	-	2	-	-
Sub - total	**14**	**17**	**66**	**22**	**22**
Grand total	**15**	**18**	**68**	**22**	**23**

Glossary of Terms

Selected Accounts

1. **Quick Assets (QA).** Highly liquid assets composed of Cash on Hand, Checks & Other Cash Items, Due from BSP, Due from Banks, Due from Philippine Clearing House Corporation (PCHC), Trading Account Securities (TAS, Equity & Investments), Available for Sale Securities (ASS) and Investment in Bonds and Other Debt Instrument (IBODI). For Rural Banks (RBs), Quick Assets is composed of Cash on Hand, Checks & Other Cash Items, Due from BSP, Due from Banks and IBODI.

2. **Interest Earning Assets.** Assets which generate interest income, such as Due from BSP, Due from PCHC, Due from Banks, TAS, ASS, IBODI and Current Loans. For RBs, Interest Earning Assets consist of Due from BSP, Due from Banks, IBODI and Current Loans.

3. **Non-Performing Loans (NPL)** as reported by banks per BSP Circular No. 202, 248 and 351.

4. **Non- Performing Assets (NPA).** NPL, ROPOA (Real Properties Owned or Acquired) and Non-Performing Sales Contract Receivables.

5. **Gross Problematic Assets (GPA).** NPL, ROPOA (Gross) and Current Restructured Loans.

6. **Loan Loss Provision (LLP).** The sum of Specific and General Loan Loss Provision.

7. **Total Allowance.** LLP, Allowance for Probable Losses on ROPOA and on Sales Contract Receivable.

Selected Ratios

8. **Risk Assets Ratio (RAR).** Capital divided by Risk Assets. Capital is Booked Capital net of Appraisal Increment Reserves, Net Unrealized Gain on Securities Available for Sale (SAS), Deferred Income Tax, Goodwill and Unsecured DOSRI. Risk Assets is Total Assets net of Non-Risk Assets, Goodwill, Unsecured DOSRI and Accumulated Market Gain on private issuances (i.e., Underwriting Debt & Equity Securities Purchased, ASS excluding Accumulated Market Gain on ASS-Government).

   (Non-Risk Assets. Cash on Hand, Due from BSP, Due from PCHC, TAS Investments, ASS-Government, IBODI-Government, Bank Premises and Deferred Income Tax).

9. **Risk Based Capital Adequacy Ratio (RBCAR).** Qualifying Capital divided by Risk Weighted Assets reported by banks and as defined under BSP Circular No. 280. Due to unavailability of data for RBs, Capital to Risk Assets was used to represent RBCAR.

10. **NPL to Capital.** NPL is defined under note #3. Capital is inclusive of Total Allowance as defined under note #7 net of Appraisal Increment Reserves, Net Unrealized Gain on SAS, Deferred Income Tax, and Goodwill.

11. **NPA to Capital.** NPA is defined under #4. Capital is defined under note #10.

12. **GPA to Capital.** GPA is defined under #5. Capital is defined under note #10.

13. **Return on Equity (ROE).** Net Income After Tax (NIAT) divided by Average Equity. For Non-Year-end period, Income & Expense Accounts are Annualized in relation to Balance Sheet Accounts. Average Balance Sheet Accounts is the sum of Year-on-Year data (ie. June-end 2004 plus June-end 2003) divided by 2.

14. **Return on Asset (ROA).** NIAT divided by Average Total Assets.

15. **Net Interest Margin (NIM).** Net Interest Income divided by Average Interest Earning Assets as defined under note #2.

16. **Operating Efficiency.** Computed by dividing the sum of Other Operating Expenses and Provision Expense by the sum of Net Interest Income and Other Operating Income.

17. **Non-Operating Income (Non-OI) to Net Income Before Tax (NIBT).** Measures level of reliance to non-recurring, extra-ordinary income in generating revenues. These non-operating income are generally realized from the disposal/sale of ROPOA.

18. **Derived Interest Rate.** Computed by dividing Interest Expense on Deposit by Average Deposit.

Welcoming a Deposit Insurance System in Indonesia

Preface

On September 22, 2004, the Government of Indonesia, after the approval of the Parliament, enacted the law creating the Deposit Insurance Corporation. The Law stipulates that Indonesia Deposit Insurance Corporation (IDIC) will be established and fully operational in a year's time after the Law is enacted.

Moving toward a normal limited deposit insurance system from a blanket guarantee will be a major change in the Indonesian banking industry, that benefited for a long time from such guarantee scheme. In this paper, we will share our experiences relative to blanket guarantee and toward preparing for the establishment of a formal deposit insurance system.

Depositors knowing that they will not suffer losses if a bank fails do not impose market discipline on banks by withdrawing deposits when they suspect that the bank assumes too much risks.

Blanket Guarantee

Since February 1998, the Government of Indonesia has provided a blanket guarantee scheme to all bank depositors and creditors. The scheme was designed as an instrument for promoting financial stability in the wake of uncertainty generated by the economic and monetary crisis (Asian Financial Crisis of 1997-98). By providing protection to depositors and creditors, the Government addressed the reluctance of depositors to place their funds in the domestic banking system, which helped prevent bank runs and minimize disturbances to financial stability.

While the blanket guarantee served well in calming depositors' fears and avoiding systemic liquidity problems, the Government recognized two major drawbacks out of providing such protection. First, it created serious moral hazard. Depositors knowing that they will not suffer losses if a bank fails do not impose market discipline on banks by withdrawing deposits when they suspect that the bank assumes too much risks. Bankers under a blanket guarantee enjoy an incentive to take on greater risks due to the government's guarantee of all depositors and creditors. Second, the premium assessment levied on banks did not cover the risk posed by banks to the Government/ taxpayers. The cost of a blanket guarantee is ultimately borne by taxpayers and eventually represents an increased burden on Government expense.

Realizing the risks, the Government decided to phase out the blanket guarantee. The transition from a blanket guarantee to a limited coverage system has become more difficult the longer the blanket guarantee remains in place. To ensure public confidence in the banking sector, the phase out process will be gradual and accompanied by the establishment of the Deposit Insurance Corporation. In addition, the reduction of the blanket guarantee will be accompanied by a transition plan that will clearly identify key issues to provide for an orderly transition. A public awareness campaign will be conducted to educate and gain support from depositors and the public on a limited coverage.

On October 18, 2004, the Government issued a presidential decree calling for an orderly phase out of the guarantee of bank liabilities. The first stage is to cancel the guarantee of all bank liabilities, except for deposits and interbank placements effective 6 months after the decree is issued. The next phase takes place as IDIC begins operations. By that time, the blanket guarantee will be terminated and the IDIC will take over the responsibility of protecting depositors. Interbank placements will no longer be guaranteed and only deposits will be covered. Over the next one and a half years, the level of coverage will be reduced every six months from full coverage of Rp5 billion, to Rp1 billion, then to the target limited coverage level of Rp100 million.

Public Policy Objectives

In setting up the IDIC, we have benefited from other country experiences as well as guidance accorded by International Association of Deposit Insurers (IADI), and from these we have identified the public policy objectives of Indonesia deposit insurance system.

Preventing bank runs

In response to real or perceived difficulties of a bank, depositors may quickly begin to withdraw their money from the bank. Once a bank run begins, it may lead to more bank runs regardless of individual banks' condition, as depositors may find it difficult to differentiate between sound and unsound banks. The existence of a formal deposit insurance should prevent bank runs since depositors feel protected from loss in the event of a bank failure.

Protecting small depositors

The opaqueness of information on banks makes it difficult - if not impossible - for small depositors to obtain and analyze the financial condition of a bank. As a result, small depositors are at a disadvantage. Limited deposit coverage will protect the interest of small depositors while providing incentives for large depositors to create market discipline, which in turn helps restrict overly risky behavior of banks.

Creating formal mechanism for resolving failed banks

Experience suggests that the failure of a bank must be promptly handled due to the tendency of troubled banks to deteriorate rapidly, while minimizing the adverse effects to the overall financial system. In the past, formal mechanism for resolving failed banks in Indonesia was ruled by a government regulation resulting in a less powerful and more difficult mechanism to enforce. Now the IDIC Law has put in place formal and clear mechanisms that deal with resolution of failed banks.

Actively participate in promoting financial stability

A deposit insurance system on its own cannot ensure financial system stability, especially in cases of systemic crisis. The IDIC is a part of a coordinated financial safety net that includes supervisory and regulatory system, payment system, lender of last resort facilities, and fiscal policy arrangements. A Coordinating Committee will be established to facilitate the decision-making process among financial safety net players. The Government has been drafting the legislation on financial safety net and the legislation on single financial services authority to be deliberated with the Parliament.

Mandates and Powers

Considering the broad public policy objectives, the IDIC was given the mandate and powers as a risk minimizer rather than as a pay box system.

The IDIC has the following authorities:

- control entry and exit from the deposit insurance system,
- require bank examinations from banking supervisor,
- access examination data from banking supervisor,
- access timely information from insured banks,
- assess and evaluate individual bank and systemic risk to the deposit insurance fund,
- provide capital injection to rescue failing banks and to administer these banks,
- undertake resolution activities, and
- recover its funds through supervision of the liquidation proceedings.

IDIC's mandates and powers are designed to meet the public policy objectives while the law clearly defines IDIC's role to ensure that there are no overlaps with other financial safety net players. The Law also states that cooperation mechanisms should be established for information sharing and coordination. As a risk minimizer, the IDIC will control and minimize its exposure reducing the overall cost to the deposit insurance fund.

Basic Features

Membership

The IDIC membership is mandatory to every commercial and rural bank operating within the territory of the Republic of Indonesia including foreign bank branches and subsidiaries. As of October 2004, there are 135 commercial banks and approximately 2,150 rural banks. The decision to extend regulation to foreign bank branches and subsidiaries is based on the idea that foreign banks benefit from a stable financial system. Through foreign bank participation, a level playing field exists, minimizing competitive advantages or disadvantages by comparable treatment to all banks. Due to lack of supervision and regulation, the membership would not cover certain village credit agent namely BKD.

Level of Coverage

The level of deposit coverage

varies considerably from country to country based on their public policy objectives. One suggestion is that the rule of thumb for the level of deposit coverage is 2 – 3 times per capita GDP. However, Indonesia did not follow this rule since our GDP fell due to the last crisis and currency depreciation. In addition, bank deposits in Indonesia are the dominant instruments for financial saving and distributed skewed with a small percentage of depositors owning a large percentage of the deposits. The IDIC Law sets deposit insurance coverage at Rp100 million. The protection would cover around 98 percent of depositor accounts and 48 percent of total deposits.

Insurance Reserves

In order to effectively function as a participant in the financial safety net, the IDIC will maintain and accumulate adequate insurance reserves. In targeting the insurance reserves, we considered variables such as number or percentage of annual failures, level of deposit insurance coverage and recovery rates. Although there is no precise method to estimate what the insurance reserves should be, the IDIC has set a target level of 2.5 percent of total deposits of the banking industry. The IDIC may only invest its reserves in government securities.

Funding

The IDIC initial capital will be funded by a contribution from the Government with a minimum contribution of Rp4 trillion (around US$444 million) up to a maximum contribution of Rp8 trillion (around US$889 million). The IDIC is responsible for the management and administration of the fund and all other assets.

Upon establishment, the IDIC would charge initial contribution (admission fee) on entry equivalent to 0.1 percent of each bank's equity. The insured bank must remit to the IDIC semi-annually at a flat rate premium payment of 0.1 percent of their deposits. The IDIC has an option to employ a risk-based premium once all circumstances regulated in the Law are met.

In the event of a large bank failure or multiple failures, the IDIC Fund may need additional contribution. Should IDIC encounter a liquidity problem, it can borrow funds from the Government. When the IDIC's capital drops below its initial capital as a result of bank failures, the Government must restore the IDIC capital.

Governance

The IDIC is an independent government entity. Although it is accountable to the President, the IDIC is not part of government department. The Board of Commissioner is the highest decision-making body of the IDIC. The Board comprises six individual members: the Deputy of Ministry of Finance, the Deputy Governor of Banking Supervisor, and the Deputy Governor of Central Bank are ex officio members while the three remaining members are nominated by the Ministry of Finance from public or private sectors. The President appoints Board members for a term of 5 years and one of the non-ex officio members shall be designated as Chairman of the Board. Another non ex officio member shall be appointed as Chief Executive Officer to carry out the operational activities of the IDIC.

The law also establishes the independence of the IDIC and the President cannot terminate a Board member for reasons other than the ones clearly stated in the Law. In making decisions on governance of its tasks and duties, the IDIC cannot be influenced by other parties. However, independence demands transparency and accountability to all its stakeholders. The governance structure reflects a desire to avoid the possible moral hazard effects of a purely government entity and the potential conflict of interest in a private sector-led deposit insurance system. The combination of independent status and government board membership is an attempt to balance the independence of deposit insurance and its ultimate accountability to government.

Conclusion

In 1998, the Government provided a blanket guarantee as an emergency policy to prevent bank runs and to restore public confidence. Realizing the enormous potential taxpayer burden and moral hazard of such guarantee, the Government decided to phase out the blanket guarantee and to phase in a limited deposit insurance system. The establishment of the IDIC is expected to help promote a sound and stable banking system and foster public confidence in the banking system. Companion measures include significantly strengthened regulatory and supervisory framework of the banking industry by way of preparing for a single financial services supervisor model and designing financial safety net arrangements.

In the future, the more complex financial services industry would be, the greater the risks to the deposit insurance. The IDIC should play a suitable role in mitigating the risk and contribute to the financial stability of the system. In achieving its goal, the IDIC is fully committed to cooperate and collaborate with deposit insurance colleagues worldwide to share common experiences and challenges.

* *Written by* ***Salusra Satria, Ph.D.*** *and* ***Hari Prasetya,*** *Head and member, respectively, of the working team responsible for the establishment of IDIC. Mr. Satria is an official of the Directorate General of Financial Institutions, Ministry of Finance (MOF). Mr. Prasetya is also with the MOF.*

How do you choose your bank?

I choose a bank based on its strength *para hindi nakakatakot na ilagay ko ang perang pinaghirapan ko*. By being a strong bank, I mean that it has many branches. I also base my decision on what I read about the bank. It is also important for me that I know the branch manager or the bank staff whom I can call anytime. - **Mrs. Sonia Agne, retired COA staff**

Convenience, *para mas madali akong makapag*-transact, *mas mataas na interes, matatag na bangko tulad ng* Land Bank. *Bagamat mahirap mag*-withdraw *o magpapalit ng tseke dahil maraming* ID *ang hinihingi, nakakatiyak naman kami na ligtas ang aming pera.* - **Mr. Cesar Caponpon, entrepreneur/former OFW**

Size

I prefer to put my hard-earned money into big banks because of stability and security. These are the banks that also offer more value-added services compared to smaller banks. - **Ysmael Coronel, Government Employee**

The bank should be stable and competitive. *Dapat maraming* branches, *matagal nang nag-o*-operate *sa* market *at maraming* depositors. - **Joey N. Copertino, 38, Seaman**

Popularity

Advertisements work for me. Since I don't have the expertise to really examine their financial statements, I get to know the bank and what they can do for me through TV, radio, and print advertisements.

- Gudofredo Fernandez, Insurance Underwriter

As a reporter, I choose a bank based on its reputation in the industry, and how media and business people perceive it. Since media gets hold of regular bank reports, interview bank officers, and know vital bank statistics more extensively than ordinary depositors, such as non-performing assets and level of capitalization, they know which banks are financially sound. If you don't have time to pore over financial statements, i suggest you ask your media friends who cover business and banking and people who are in business which banks they trust, and most likely, they'll give you a fair and truthful assessment. In the end, it all boils down to reputation, NPAs, and the recommendation of a good and satisfied customer. - **Paolo Lising, reporter, BusinessWorld Online**

Proximity

Any bank will do for me, but the bank nearest my home is the best. I own a small store adjacent to my house; Any income derived from the day's sale goes straight to my neighbor bank, giving me security and convenience

- ***Luzviminda Emphante, Proprietor***

I choose my bank using the following criteria: (a) accessibility - it needs to be near to where I live or work, and belongs to a network like Bancnet or Megalink, so you can easily do an ATM transaction. *Hirap kasi ng bankong sa kanila ka lang pwedeng mag-withdraw.* (b) credibility - tested in terms of its track record and history. Ten to 15 years of being in the business is good enough for me though it's not a guarantee for stability. There are banks *kasi na matatakot ka na baka biglang magsara.* (c) profitability - I don't know how banks are classified according to profits. I would like to know interest rates on deposits. - **Romy Osteniane, 33, Sales Executive**

I open bank accounts where my company deposits our salary. If, however, I have the money to save in a bank, I'd choose a non-commercial, non-universal bank because they offer higher interest rates. I'd just make sure that the bank has good financial backing just so the risk of a bank run is low. - **Nonoy Albelar, Business Analyst Philamlife IT Group**

I choose banks which are credible, well-known, and with numerous branches around the country for easier transactions. Most of all, it must be a member of PDIC to guarantee return of my money in case of bank closure or bank run. - **Jhoanna Ongtengco, Information Officer, Taxpayers Assistance Service, Bureau of Internal Revenue**

PDIC FORUM is published twice a year
by the Philippine Deposit Insurance
Corporation (PDIC).

For information on subscription, we refer
you to *http://www.pdic.gov.ph*.

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