Philippine Deposit Insurance Corporation

1997 ANNUAL REPORT

100041
rce Center

TABLE OF CONTENTS

ion

ɔrporation, operationally responsive
ıblic and the banking community;
y strong, adequately manned and
ınt of sound banking and savings
ent.

ıf exemplary public service.

sion

lepositor protection and education
and settlement of depositor claims;

ɿt monitoring and examination of
prompt, decisive and prudent

ɾeceivership, judicious rehabilitation,
ɘd banks.

iefs

ɘfulness, perseverance, teamwork,
ɿtial in accomplishing our missions;

a continuing commitment; and

ource.

PHILIPPINE DEPOSIT INSURANCE CORPORATION

CITY OF MAKATI

PHILIPPINE CENTENNIAL 1898 - 1998 100 KALAYAAN KAYAMANAN NG BAYAN

Office of the President

July 1998

HIS EXCELLENCY
PRESIDENT JOSEPH E. ESTRADA
Malacañang Palace, Manila

Dear Mr. President:

I have the honor to submit the 1997 Annual Report of the Philippine Deposit Insurance Corporation. The Report features the Corporation's performance in safeguarding the rights and interests of depositors to help maintain confidence in the banking system.

The continuing increase in the number of banks and bank products and services, deficiencies in regulatory powers, and enforcement forbearances make our task even more formidable. Nevertheless, with our continued efforts towards enhancement of the regulatory framework, and with the support and cooperation of my colleagues in the banking community and various government agencies, we shall remain steadfast in our commitment to help maintain depositor confidence and stability in the banking system.

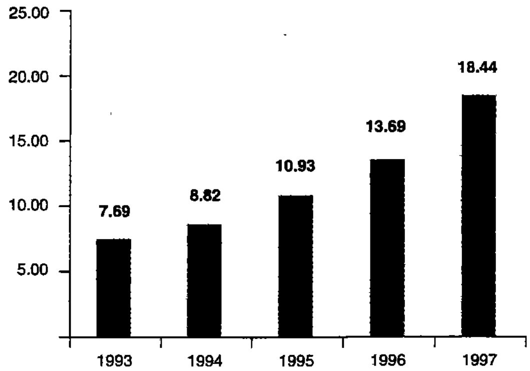
On behalf of the PDIC Board of Directors, its management and staff, I extend my warmest congratulations to His Excellency, on his assumption to office as President of the Republic of the Philippines. We look forward to your support in advancing reforms in the banking industry and we pledge our dedication to fulfill our obligations towards greater depositor protection.

Very truly yours,

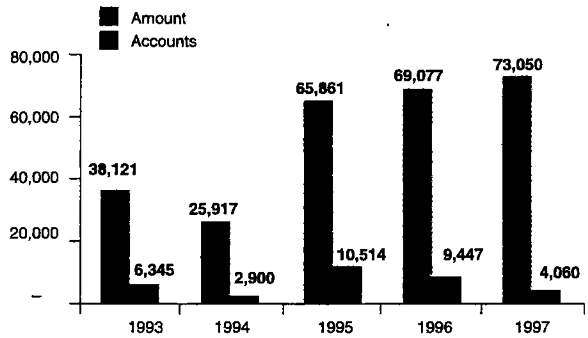
ERNEST LEUNG

The Philippine Deposit Insurance Corporation at a glance

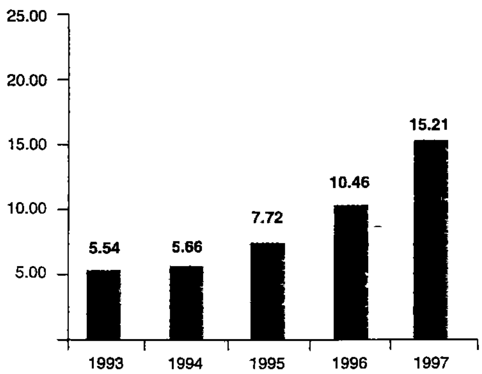
TOTAL ASSETS
(in billion pesos)



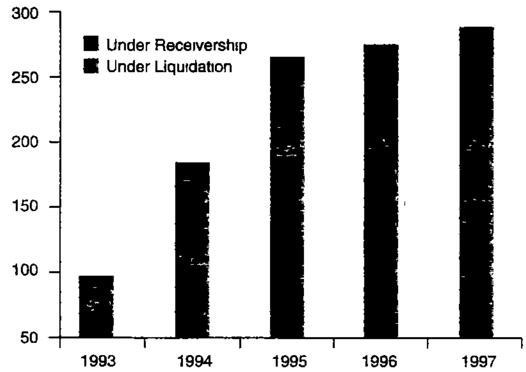
INSURED DEPOSIT CLAIMS PAID
(amount in thousand pesos)



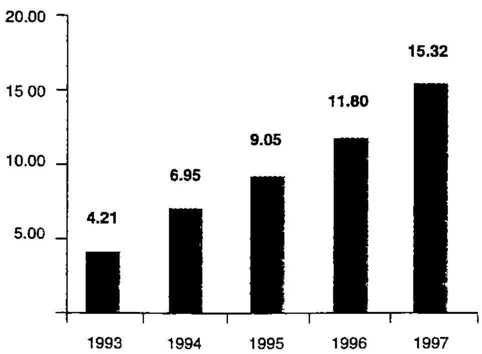
TOTAL LIABILITIES
(in billion pesos)



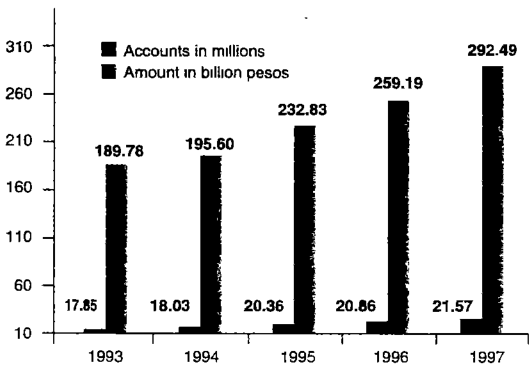
BANKS UNDER PDIC R&L



INSURANCE RESERVES
(in billion pesos)



INSURED DEPOSITS
As of June 30



Data as of end of reference year except for Insured Deposits (as of June 30) and Insured Deposit Claims Paid which are for the reference year

President's Message

A strong banking system that can mobilize resources efficiently for productive returns is imperative to sustain growth. While financial liberalization is envisioned to enhance financial intermediation, it has also led banks to engage in more risky activities in their quest for greater efficiency and profitability amidst heightened competition. Moreover, the entry of new banks has resulted in the increase of undercapitalized banks and the influx of inexperienced bankers in the industry. Without proper safety nets, financial liberalization may increase the danger of a banking crisis.

Future Challenges

The challenges we face today and in the coming years are even more formidable. To confront these challenges as well as seize the opportunities that come with a changing banking environment, regulatory and supervisory powers have to be further enhanced to keep pace with liberalization.

Liberalization resulted in more banks which, on hindsight, were not professionally managed. The entry of new banks requires a balance between fostering competition and maintaining effective supervision. To eliminate undercapitalized banks and the proliferation of neophytes in the banking profession, mergers and consolidations shall be promoted. This strategy will bring about fewer but stronger banks resulting from increased capital, shared technical expertise, and economies of scale in banking.

A review of standard approaches to bank supervision and regulation is imperative. This will require implementing prompt corrective action, enhancing access to timely and accurate information, and strengthening the legal framework and organizational structure of regulators.

The Corporation shall continue to help in maintaining the highest possible standards of professional integrity and sound banking management by advocating strict enforcement of the 'fit and proper' rule in the selection of bank officers and directors. Inadequate bank management often leads to undue risk taking, to the detriment of depositors, creditors and investors. It is therefore critical that bank management be equated with a high degree of integrity, relevant training, and adequate experience to ensure sound internal controls and audit systems are in place.

Closer and stronger coordination with the Bangko Sentral ng Pilipinas shall be forged to ensure well-coordinated actions for effective enforcement of standards and regulatory interventions. Emphasis shall be given to research development to better guide policy formulation and improvements in operations

Fully aware of the consequences of the lack of information in undermining market discipline and delaying recognition of bank problems, resources shall be focused in empowering the public with accurate and timely information to establish a level playing field, where depositors can exercise greater discretion in their choice of banks. Enhancing information disclosure will require upgrading of monitoring systems to facilitate sourcing, organization, analysis and dissemination of relevant data. Relations with the banking sector shall be strengthened to keep PDIC abreast of current developments, thus promoting a friendly environment, and improving policy formulation towards greater depositor protection.

Amendments to relevant banking laws, i.e., Secrecy of Bank Deposits, General Banking Act, PDIC Charter, to provide greater protection to depositors shall be actively pursued. We shall work towards exemption from the provision of the Law on Secrecy of Bank Deposits which bars regulators from examining individual deposit accounts, contributing to poor records maintenance. This provision severely impairs PDIC's ability to determine the true condition of banks, and undertake speedy settlement of claims in the event of bank closure. Also, amendments to the PDIC Charter shall be pursued to strengthen the capacity of the Corporation for more effective and efficient delivery of services.

Simultaneously, focus shall be given to training and development programs to upgrade skills, prepare staff for greater responsibilities and improve overall effectiveness. Appropriate expertise shall be acquired to ensure the quality of supervision at par with innovations in the banking system. Personnel shall be trained to better evaluate risks associated with new and expanded banking operations.

A responsive organization, supported with a strong legal framework, enhanced information system and dissemination, and manned with personnel possessing well-grounded technical and managerial expertise, creativity and innovativeness shall be the envisioned PDIC in the coming millennium.

THE ECONOMY

The Philippine economy continued to grow though at a slower pace in 1997. Output measured by the gross national product (GNP) expanded by 5.3% in real terms, lower than the 7.2% realized in 1996. Expenditure rate for government consumption decelerated to 1.6% in 1997 from 4.1% in 1996, while personal consumption posted a slight growth at 5.0% from previous year's 4.6%. Expenditures for investments tapered to 11.7% in 1997 from 12.5% in 1996.

Major production groups registered positive but lower growth rates in 1997 compared to 1996. The agriculture, fishery and forestry group slowed down to 2.9% from 3.8% in 1996 due to the adverse effects of a countrywide drought. The growth of the industry sector also slightly weakened to 6.1% in contrast to 6.4% in the past year, primarily due to the contraction of output growth in manufacturing and public utilities. The services group grew only by 5.5% in 1997 as compared to 6.4% registered in 1996, with decelerating performances of the finance, trade, real estate and government and private services sectors. Specifically, growth of the finance sector composed primarily of banks slacked off to 13.0% from 13.8% in 1996.

The sharp peso depreciation and the high interest rates brought about the slowdown in economic activity. For several years, the value of the peso had been maintained despite a widening trade deficit. The correction in the peso-dollar exchange rate followed after the major adjustment of the Thai baht in early 1997 as the regional currency turmoil hit a number of Asian economies. The Bangko Sentral ng Pilipinas (BSP) tried to prevent the peso from depreciating by raising interest rates, coupled with selling of dollars using international reserves which resulted in a loss of over a billion dollars. During the period 2 -15 July 1997, overnight rates for borrowing doubled from 15.0% to 32.0%, and for lending, from 17.0% to 34.0%. In the same period, the gross international reserves declined by $1.74 billion, from $11.20 billion to $9.46 billion. Liquidity was also tightened through continued acceleration of reserve requirements against deposit liabilities of commercial banks. These measures delayed the depreciation of the peso although by 15 July 1997, the peso started to drop from P26.40 to P28.77 until it reached P39.98 by yearend, losing 51.4% of its value against the US dollar.

The adjustments in interest and exchange rates inevitably took their toll on industries which borrowed in foreign currency and depended on imported inputs. Dollar borrowers and importers of capital goods and raw materials suffered severe losses due to the increase in peso equivalent of foreign loans and imported goods. On the other hand, peso borrowers had to deal with high interest payments as commercial banks raised their lending rates from 13.3% in the first semester to 20.4% in the second semester of 1997.

The consolidated fiscal sector was also adversely affected as its finances returned to a deficit of P19.06 billion in 1997 after realizing a surplus of P7.27 billion in 1996. The national government managed to maintain a budget surplus of P1.56 billion in 1997 though much diminished from the 1996 level because expenditures were increasing faster than revenues. This diminution was aggravated by the growing deficits in government-owned and-controlled corporations, as well as the greater debt servicing of foreign obligations and of the Central Bank - Board of Liquidators resulting from the peso depreciation, both of which raised the total public borrowing requirement from P12.44 billion in 1996 to P34.54 billion in 1997. There was also a notable decline in income of other public agencies like the SSS, GSIS, government financial institutions and local government units, from P19.71 billion in 1996 to P15.48 billion in 1997.

In international transactions, the country's balance of payments turned from a surplus of $4.11 billion in 1996 to a deficit of $3.36 billion in 1997 due to the current account deficit of $4.30 billion. Exports, led by electronic products, recorded a growth of 22.8% in 1997 compared to a 17.7% in 1996. The growth of total imports decelerated from

20.8% in 1996 to 14.0% in 1997, with a decline registered for consumer goods. The $4.69 billion increment in export values, however, was offset by the increase in imports; hence, merchandise trade deficit remained at $11.13 billion in 1997. Considerable capital outflows were also experienced, particularly portfolio investments and changes in net foreign assets of commercial banks even during the first semester, resulting in the reduction of capital and financial account by 41.6% in 1997.

The full impact of the sharp peso depreciation and high interest rates will continue to be felt in 1998. The pace of the country's economic recovery will depend on a strong export sector that can take advantage of the opportunities created by the weak peso, and less on the remittances of foreign exchange earnings of Filipino contract workers. Meanwhile, with the continued threat of regional instability from the pressures of devaluation of the Chinese and Japanese currencies, the shocks to the financial system will remain. Hence, more safeguards should be instituted against similar attacks in the future to help establish a stronger banking system.

THE BANKING ENVIRONMENT

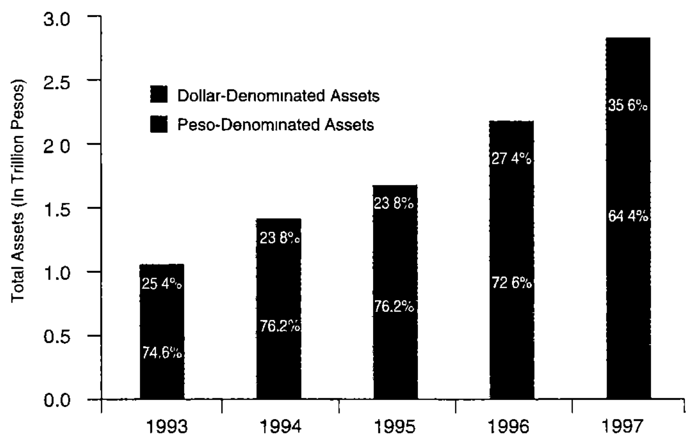
The Philippine banking infrastructure further expanded in 1997 despite the stresses brought about by the currency turmoil and high interest rates. PDIC member banks grew from 936 in 1996 to 979 in 1997 (Table 2.1). During the year, 56 banks consisting of 4 commercial banks, 11 thrift banks and 41 rural banks were opened, contributing 3.2% to the total increment in resources of the industry. On the other hand, 12 member banks comprising of 11 rural banks and one thrift bank were closed due to insolvency, although impact on the industry was minimal. Only one case of merger occurred during the year as a thrift bank absorbed a rural bank for branch office expansion. Also, during the year, 3 thrift banks were converted, i.e., one to a commercial and two to rural banks. A rural bank was also converted to a thrift bank.

In terms of resources, total assets of the Philippine banking industry reached P2.77 trillion from P2.12 trillion in 1996 (Table 2.2). The growth of 30.6%, slightly lower compared to 32.0% in 1996, was largely due to the higher peso revaluation of dollar-denominated assets arising from the sharp change in the peso-dollar exchange rate. Of the P0.65 trillion asset increase in 1997, close to one half or 46.8%[1] was due to the peso revaluation of dollar assets. More than a third or 37.8% was contributed by the increase in peso-denominated assets, while 15.4%[2] was due to the volume increase in dollar assets. By yearend, share of dollar-denominated assets increased to 35.6% of the total assets, while peso-denominated assets accounted for 64.4% (Chart 2.1).

Table 2.1 PDIC MEMBER BANKS, 1993-1997

Bank Type	1993	1994	1995	1996	1997
Total	**892**	**899**	**913**	**936**	**979**
Commercial Banks	**35**	**36**	**47**	**49**	**54**
Expanded Commercial Banks	14	16	17	18	18
Non-Expanded Commercial Banks	14	13	13	11	15
Foreign Banks	4	4	14	17	18
Government Banks	3	3	3	3	3
Thrift Banks	**98**	**101**	**100**	**108**	**116**
Savings & Mortgage Banks	8	12	12	19	30
Private Development Banks	37	37	37	39	39
Savings & Loans Associations	53	52	51	50	47
Rural Banks	**759**	**762**	**766**	**779**	**809**

Chart 2.1 ASSETS OF THE PHILIPPINE BANKING INDUSTRY*, 1993-1997



*Covers PDIC member banks only, including overseas branches of Philippine banks and Philippine Amanah Bank

Loans comprised two thirds of the total assets of the banking industry and amounted to P1.75 trillion, up by 27.2% from P1.38 trillion in 1996 (Table 2.3). The growth

[1] Estimated as [(1996 dollar assets in US dollars) x (1997 foreign exchange rate less 1996 foreign exchange rate)] / 1996 to 1997 increase in total assets in Philippine pesos.

[2] Estimated as [(1997 dollar assets in US dollars less 1996 dollar assets in US dollars) x 1997 foreign exchange rate] / 1996 to 1997 increase in total assets in Philippine pesos.

in loans was likewise due to higher peso revaluation of dollar loans which, as of yearend, comprised around 34.6% of gross loans. Compared to the 40.7% growth in 1996, the lower loan growth in 1997 can be attributed to banks' reversion to conservative lending as credit risks rose following the currency crisis, and clients' inhibition to secure new loans due to higher interest rates and bleak economic prospects.

Table 2.2 SELECTED ACCOUNTS ON THE PHILIPPINE BANKING INDUSTRY, 1993-1997*

Amounts in Million Pesos

Accounts	1993	1994	1995	1996	1997
Statement of Condition					
ASSETS	**1,001,775**	**1,255,979**	**1,606,561**	**2,120,553**	**2,769,812**
Quick Assets	265,467	340,447	395,504	478,380	580,969
Net Loans	550,471	704,810	961,185	1,357,109	1,711,448
Gross Loans	564,541	719,331	977,866	1,375,679	1,750,404
Current Loans	534,683	685,259	938,872	1,327,189	1,655,656
Non-Performing Loans [1]	29,859	34,072	38,994	48,489	94,748
Allowance for Probable Losses	14,070	14,521	16,680	18,570	38,956
Investments [2]	68,737	82,042	93,533	98,159	184,918
Other Assets [3]	117,099	128,680	156,338	186,904	292,476
LIABILITIES	**868,078**	**1,087,042**	**1,381,368**	**1,833,043**	**2,406,391**
Deposits	649,463	807,895	1,018,931	1,294,400	1,674,083
Demand & NOW	58,278	68,393	88,432	111,113	130,169
Savings	416,052	542,682	687,189	816,731	1,021,861
Time	175,133	196,821	243,310	366,556	522,053
Borrowings	116,347	165,431	224,897	320,026	428,026
Other Liabilities	102,268	113,716	137,539	218,616	304,282
CAPITAL	**133,697**	**168,937**	**225,193**	**287,510**	**363,420**
Income & Expenses					
NET INTEREST INCOME	**34,591**	**46,958**	**59,130**	**79,961**	**111,609**
Interest Income	77,832	103,804	132,325	179,572	259,233
Interest Expense	43,240	56,846	73,195	99,611	147,624
NET OTHER OPERATING INCOME/(LOSS)	**(19,030)**	**(27,177)**	**(32,812)**	**(46,205)**	**(71,008)**
Other Operating Income	22,542	21,745	27,543	31,511	43,024
Other Operating Expense	41,572	48,922	60,355	77,717	114,033
NET NON-OPERATING INCOME	**4,121**	**5,706**	**6,411**	**11,100**	**5,548**
NET INCOME BEFORE TAX	**19,682**	**25,487**	**32,729**	**44,855**	**46,148**
Provision for Income Tax	1,508	2,327	2,299	4,392	3,969
NET INCOME AFTER TAX	**18,174**	**23,160**	**30,431**	**40,463**	**42,179**
Ratios					
Capital/Risk Assets [4]	16.79	16.92	17.10	16.30	15.36
Non-Performing Loans/Gross Loans	5.29	4.74	3.99	3.52	5.41
Allowance for Probable Losses/Non-Performing Loans	47.12	42.62	42.78	38.30	41.11
Allowance for Probable Losses/Gross Loans	2.49	2.02	1.71	1.35	2.23
Other Operating Expense/Net Interest Income + Other Operating Income	72.76	71.21	69.64	69.72	73.74
Quick Assets/Total Deposits	40.87	42.14	38.82	36.96	34.70
Gross Loans/Total Deposits	86.92	89.04	95.97	106.28	104.56
Net Income Before Tax/Average Total Assets [5] (ROA)	2.19	2.26	2.29	2.41	1.89
Net Income Before Tax/Average Total Capital [5] (ROE)	15.88	16.84	16.61	17.50	14.18

* Covers PDIC member banks only, including overseas branches of Philippine banks and Philippine Amanah Bank

[1] Comprised of past due loans and items in litigation

[2] Comprised of investments in bonds and other debt instruments (IBODI-others), equity investments and underwriting accounts. Excludes marketable securities and investment in government securities which are already included in quick assets

[3] Comprised of bank premises, real and other properties owned or acquired (ROPOA), deferred income tax and other assets

[4] Capital is net of appraisal increment reserves, risk assets are bank assets that run the risk of default and/or decline in value Risk assets consist of due from other banks, checks and other cash items (COCI), net loans, IBODI-others, underwriting accounts, ROPOA, equity investments, and other assets (net of deferred income tax)

[5] Average total assets and average total capital were derived by summing up the beginning and yearend levels divided by two

Table 2.3 LOANS IN THE PHILIPPINE BANKING INDUSTRY, 1993-1997*

	1993	1994	1995	1996	1997
I. Amounts (In Million Pesos)					
Gross Loans	564,541	719,331	977,866	1,375,679	1,750,404
Current Loans	534,683	685,259	938,872	1,327,189	1,655,656
Non-Performing Loans	29,859	34,072	38,994	48,489	94,749
Allowance for Probable Losses	14,070	14,521	16,680	18,570	38,966
II. Distribution of Gross Loans (In%)					
A. By Bank Type					
Commercial Banks	89.2	88.1	88.3	88.6	89.7
Thrift Banks	8.0	9.2	9.1	9.0	8.0
Rural Banks	2.8	2.7	2.6	2.4	2.3
B. By Status					
Current	94.7	95.3	96.0	96.5	94.6
Non-Perfroming	5.3	4.7	4.0	3.5	5.4
C. By Currency Denomination					
Peso	79.4	80.5	78.4	73.2	65.4
Dollar	20.6	19.5	21.6	26.8	34.6
III. Ratios (In%)					
A. Past Due Ratio (Non-Performing Loans/Gross Loans)					
Industry	5.3	4.7	4.0	3.5	5.4
Commercial Banks	4.7	3.9	3.2	2.8	4.7
Thrift Banks	6.0	8.3	7.9	7.8	10.7
Rural Banks	21.2	18.8	15.8	14.0	15.3
B. Coverage Ratio (Allowance for Probable Losses/ Non-Performing Loans)					
Industry	47.1	42.6	42.8	38.3	41.1
Commercial Banks	54.3	47.9	48.9	42.6	45.8
Thrift Banks	23.1	36.9	33.9	34.5	29.6
Rural Banks	15.1	15.0	15.1	14.3	12.9

* Covers PDIC member banks only, including overseas branches of Philippine banks and Philippine Amanah Bank

The quality of loans worsened as non-performing loans (NPLs) almost doubled from P48.49 billion to P94.75 billion by 1997. Moreover, property foreclosures or ROPOAs (real and other properties owned or acquired) grew by 69.4% compared to only 16.5% in 1996. The surge in problem loans was a consequence of higher debt servicing resulting from the rise in interest rates among peso loans and peso depreciation which affected dollar-denominated loans without hedge. Another significant factor in the rise of NPLs was BSP's order in late 1997 to accelerate the recognition of past due loans from 6 months in arrears to 3 months. The faster rise of NPLs vis-a-vis gross loans resulted to higher past due ratio of the industry at 5.4% in 1997 compared to 3.5% in 1996. Commercial banks registered a past due ratio of 4.7% from 2.8%, while the thrift bank's sector's ratio reached double digit at 10.7% from 7.8%. Rural banks recorded a slight increase from 14.0% to 15.3%.

Relative to the increase of defaults in loan payments, banks provided higher loan loss reserves which reached P38.96 billion, up by 109.8% from P18.57 billion in 1996. These reserves cover 41.1% of non-performing loans. Among bank types, commercial banks have a higher loan loss coverage ratio of 45.8%, and lower for thrift and rural banks at 29.6% and 12.9%, respectively.

While loan growth tapered, quick assets and other investments accounts posted higher growth rates. Quick assets comprising of cash, accounts due from the BSP and other banks, and investments in government and marketable securities amounted to P580.97 billion, posting a slightly higher growth of 21.4% in 1997 compared to previous year's level at 21.0%. Other investments, consisting of placements in bonds and other debt instruments, equity investments and underwriting accounts totaled P184.92 billion, up by 88.4% from the previous year's level. Investments in bonds and other debt instruments in dollar transactions accounted for the bulk of increase in other investments.

Total liabilities stood at P2.41 trillion, up by 31.3% from P1.83 trillion of the previous year. Total deposits increased by 29.3%, from P1.29 trillion in 1996 to P1.67 trillion in 1997 (Table 2.4). Higher peso revaluation of dollar deposits accounted for half the growth. Savings deposits, which continued to comprise almost two thirds of total deposits, grew by 25.1% from 18.9% in 1996. The growth in saving deposits was due more to volume increase rather than revaluation of dollar accounts, as peso accounts grew faster than dollar accounts and continue to comprise the bulk of savings deposits. Time deposits, representing 31.2% of total deposits, recorded a 42.4% growth but this growth was solely a result of higher peso revaluation of dollar time deposits. In terms of volume, both peso and dollar time deposits contracted. Demand deposits, making up 7.8% of total deposits, decelerated from 25.6% in 1996 to 17.1%. The growth came from the increase in peso accounts and the peso revaluation of dollar accounts. Peso demand deposits grew by 15.0%, while the volume of dollar demand deposits contracted. Among bank types, commercial banks, cornering 89.7% of total deposits, posted a 31.7% deposit growth compared to 26.2% in 1996, but almost half of this growth was due to higher peso revaluation of dollar

Table 2.4 DEPOSITS IN THE PHILIPPINE BANKING INDUSTRY, 1993-1997*

	1993	1994	1995	1996	1997
Total Deposits (In Million Pesos)	**649,463**	**807,895**	**1,018,931**	**1,294,400**	**1,674,083**
I. Distribution of Total Deposits (In %)					
A. By Bank Type					
Commercial Banks	90.2	89.9	88.7	88 1	89.7
Thrift Banks	7.7	7.9	9.0	9.5	8.1
Rural Banks	2.1	2.2	2.3	2.3	2.2
B. By Deposit Type					
Demand	9.0	8.5	8.7	8.6	7.8
Savings	64.1	67.2	67.4	63.1	61.0
Time	27.0	24.4	23.9	28.3	31.2
C. By Currency Denomination					
Peso	74.1	75.2	75.7	69.8	64.1
Dollar	25.9	24.8	24.3	30.2	35.9
III. Ratios (In %)					
A. Liquidity Ratio (Quick Assets/Total Deposits)					
Industry	40.9	42 1	38.8	37.0	34.7
Commercial Banks	41.0	42.0	38.7	37.5	35.5
Thrift Banks	40.8	45.2	41.2	33.4	27.9
Rural Banks	37.2	36.5	35.1	31.8	28.0
B. Intermediation Ratio (Gross Loans/Total Deposits)					
Industry	86.9	89.0	96.0	106.3	104.6
Commercial Banks	86.0	87 3	95.5	106.9	104.5
Thrift Banks	89.8	103.4	97.7	99.7	103.0
Rural Banks	115.1	109 7	106.5	109 9	111.1

* Covers PDIC member banks only, including overseas branches of Philippine banks and Philippine Amanah Bank

deposits. Deposits among thrift and rural banks tapered from 1996 to 1997 at 35.4% to 9.7% and 28.6% to 20.1%, respectively.

Banks' capacity to meet short-term cash obligations remained sound at 34.7%, as measured by the ratio of quick assets to total deposits which was above the regulatory requirement of at least 25%. Liquidity level was healthiest among commercial banks with a ratio of 35.5%, while those of thrift and rural banks were at 27.9% and 28.0%, respectively.

On the other hand, the intermediation ratio or gross loans to total deposits for all bank types remained high and breached 100% in 1997. This indicated banks' utilization of their borrowings and/or capital for lending. Borrowings was valued at P428.03 billion by yearend, an increase of 33.7% from a P320.03 billion level in the previous year. However, this growth was largely due to higher peso revaluation of dollar denominated borrowings. Peso borrowings grew by 25.5%, and made up 34.8% of total borrowings. Dollar borrowings declined in volume although its peso equivalent comprised 65.2% of total borrowings. Bills payable accounted for 95.6% of total borrowings obtained from the BSP, other banks and money markets.

Total net worth of the banking industry stood at P363.42 billion in 1997, up by 26.4%, but slightly lower compared to 27.7% in 1996 (Table 2.2). Accounting for the relatively steady growth of capital are the higher growth in capital stock and slight deceleration in surplus. These two accounts comprised around 75% of total capital. On the other hand, the sharp deceleration in undivided profits, assigned capital, and net working fund of foreign banks tempered capital growth. With risk assets tapering at a slower rate than capital, the capital adequacy ratio slid to 15.4% by yearend from 16.3% in 1996, but still above the statutory requirement of at least 10%. Thrift banks have the highest capital to risk assets ratio at 20.3%, while that of commercial and rural banks were at 14.9% and 17.0%, respectively.

The industry recorded a net income (before tax) of P46.1 billion, only 2.9% higher than the 1996 level of P44.9 billion. This income growth was significantly lower compared to the 37.0% growth recorded between 1995 and 1996. The sharp deceleration in earnings was due to the surge in other operating expense which dampened the gains in net interest revenue. With less income accumulated vis-à-vis steady growth rates of total capital and assets of the industry, returns on equity (ROE) and assets (ROA) declined from 17.5% and 2.41% in 1996 to 14.2% and 1.89% in 1997, respectively.

Philippine banks will continue to experience difficult times ahead as uncertainty in the financial market prevails. Several measures have been prescribed to cushion the impact of the recent economic stresses on the banking system. Foreign exchange trading was regulated to temper speculations against the peso and hedging facilities were provided for FCDU borrowers. Bank exposure to the volatile real estate sector was restricted to 30% of total portfolio, and general provision for gross loans was instituted. Guidelines governing the duties and responsibilities of board of directors were issued to provide direction towards responsible bank management.

While these measures have been implemented, further institutional reforms are needed to improve bank supervision and enforce compliance, discipline and prudence among banks. Paramount to this concern is the need to equip bank supervisors with timely and accurate bank information to enable them to determine the true condition of banks and carry out prompt corrective actions. To achieve this, laws impeding access to bank records need to be relaxed, frequency of bank examination should be increased, and greater accountability for the accuracy of banks' financial reports should be required of bank owners and external auditors.

The pursuit of improved supervision and regulation of banks is a means to ensure that banking institutions are professionally managed and financially strong to withstand pressures of liberalization and globalization. But more importantly, it provides the best protection for depositors' interest, which PDIC is mandated to uphold.

BANK MONITORING AND SUPERVISION

The Corporation monitors performance of banks through off-site analysis using available information from reports submitted by member banks, and examination reports of the Bangko Sentral ng Pilipinas (BSP). It also conducts independent on-site examination of selected banks to complement that of the BSP and validate results from off-site analysis.

Bank Performance Monitoring

PDIC continues to improve compliance of member banks with reportorial requirements towards more effective supervision and monitoring. Compliance with reportorial requirements had been a problem with small banks which lacked adequate infrastructure and manpower. Information education on the importance of timely reporting and accuracy of data was therefore intensified in 1997. Habitually delinquent banks are sent information materials supported by letters reminding them of the submission date for required reports. Constant follow-up calls are also made to reduce non-compliance rate. As a result, delinquency rate as measured by number of reports submitted over expected number of submitted reports of member banks during the year slightly decreased to 10.5% from 11.8% in the previous year, even as the number of member banks increased from 936 in 1996 to 979 in 1997.

Regarding quality of reports submitted, the share of defective reports to total reports received decreased from a high of 28.5% in the second quarter to 15.6% by the fourth quarter. The most common mistakes committed by banks were errors in some reported figures and submission of accumulated Statements of Income and Expense (SIEs) instead of SIEs specific for the reference quarter (particularly during the 2nd and 3rd quarters).

To advance the Corporation's off-site supervisory function, the system of monitoring bank performance was enhanced to cope with expanding membership and growing risk of bank failure resulting from an increasingly competitive market. The enhanced off-site monitoring system or Early Warning System (EWS) aims to promote efficient allocation of corporate resources in monitoring and examining member banks (Box 3.1). First, the system pinpoints financial weaknesses or excessive risk-taking by banks before they develop into bigger problems. Second, it classifies banks according to magnitude of risk or perceived likelihood of failure. Each class is then assigned to the appropriate group in the Insurance and Examination Sector for more focused regulatory action or response: Special Actions and Assistance Group for failure resolution or rehabilitation, Field Examination Group for on-site examination, and Bank Performance Monitoring Center for close off-site monitoring.

The EWS will eventually replace the current method of watchlisting banks, which focuses largely on the general examination rating given by the BSP and capital adequacy indicator. This method has been effective only in identifying banks already showing serious or critical condition. The enhanced system, on the other hand, uses additional financial and qualitative indicators describing asset quality, liquidity, and earnings, thus ensuring evaluation of major areas of operations.

An off-site analysis of the condition and results of operations of a bank is also an integral part of the EWS. The objective is to make a more in-depth assessment of

Box 3.1 AN ENHANCED EARLY WARNING SYSTEM

The Early Warning System (EWS) consists of two phases, namely (1) identification and classification of potential problem banks, and (2) in-depth analysis of banks' financial performance.

Phase 1 – Banks are evaluated or screened based on a pre-determined set of financial and qualitative indicators for solvency, asset quality, liquidity, profitability and management competency. Banks are then grouped depending on their risk potential and corresponding recommended actions as follows:

Bank Grouping	Recommended Action
a. Highest probability of failure	Failure resolution/rehabilitation
b. High probability of failure	On-site examination
c. Low probability of failure	Close off-site monitoring

Phase 2 – Financial performance analysis is made based on the financial statements and other reports submitted by banks, examination reports of both PDIC and BSP, and information gathered from research as well as from newspaper accounts.

the specific risk areas in bank operations, and its vulnerability to changes in the economic environment. The off-site analysis can also include recommendation for on-site examination, if necessary.

The EWS was pilot tested in 1997 on four banks, one of which was recommended for on-site examination. Pending correction of some areas/concerns, the EWS will be formally adopted soon.

Bank Examinations and Corrective Actions

PDIC examinations are conducted to complement BSP's examinations. Banks found to have committed unsafe and unsound practices which invariably undermine their earning capacity and capital position are referred by the PDIC Board of Directors to the Monetary Board for corrective action. At the same time, the concerned banks are asked to execute Deeds of Undertaking (DOUs) incorporating action plans to address deficiencies uncovered during examination. If no corrective action has been instituted by the Monetary Board within 60 days from receipt of PDIC's report of examination, the PDIC Board is mandated to take such corrective measures as it deems necessary and appropriate. These measures may include imposition of fines and penalties and issuance of a cease and desist order (CDO) with provisions that can include restricting bank operations such as prohibition from accepting new deposits, and extending loans. Should the bank violate the CDO, the Corporation is empowered to terminate the bank's insured status. Thereafter, deposits cease to be insured after the lapse of 90 days from issuance of the termination order.

In view of the limited manpower of the Corporation, PDIC examinations are done on a selective basis. In 1997, PDIC examined 22 banks composed of 4 commercial banks, 11 thrift banks and 7 rural banks, with total insured deposits of P22.49 billion, comprising 7.1% of the total insured deposits of the banking system. Out of the 22 banks examined, 7 thrift and 5 rural banks were found to have committed or were committing unsafe and unsound banking practices, such as inadequate provisioning for valuation reserves, high past due ratios, maintaining inaccurate books and records, and operating with insufficient capital in relation to their portfolio of risk assets.

In the banks examined, PDIC conducted a computer systems audit of two medium-sized commercial banks with the use of Audit Command Language (ACL). The ACL assists auditors in accessing, analyzing, summarizing and reporting data. The examination included familiarization with banks' hardware and software, and review of the adequacy of general controls undertaken in electronic data processing activities. In addition, the bank's loan processing system was subjected to a more in-depth systems review.

For the first time, the Corporation conducted examination of deposit accounts in two banks in response to mounting complaints of depositors on non-servicing of their withdrawals. This was made possible by the depositors' foresight to issue waivers of their rights under RA 1405 or Law on Secrecy of Bank Deposits that empowered PDIC examiners to look into individual deposit accounts. The examination helped facilitate payment of depositors' claims upon eventual closure of the concerned banks by the Monetary Board (MB).

The Law on Secrecy of Bank Deposits prohibits disclosure of and inquiry into individual deposit records. Such restriction has resulted in disturbing findings on the poor state of deposit records of banks when these are finally closed by the Monetary Board. This was highlighted in the examination of individual deposit records of RB Sta. Catalina and RB Bantay (Box 3.2). The examination involved ascertaining whether depositors' accounts were recorded in the banks' books, and checking of accuracy of balances in the books by comparing total deposit liabilities per submitted schedule to general ledger. After examination, a directive was issued to the banks to update their records and correct deficiencies noted. The timely correction prior to closure as well as information in the possession of PDIC ensured full protection of depositors' interest and facilitated servicing of claims upon bank closure.

Such incident underscored the merit of exempting regulators – as is the case in most countries, including Switzerland—from the provision of the Law on Secrecy of Bank Deposits. It is not only to the Corporation's interest as insurer, but more to the depositing public, that records of deposit accounts are well maintained to improve reliability and accuracy of financial information submitted by banks as well as to facilitate settlement of claims in the event of closure.

Management of Distressed Banks

Under the Charter, the Corporation grants financial assistance in any or a combination of the following

Box 3.2 WAIVER OF RIGHTS BY DEPOSITORS ALLOWS PDIC TO EXAMINE INDIVIDUAL DEPOSIT RECORDS

For the first time in 1997, PDIC was able to examine individual deposit records of two banks. In August 1996, depositors of the Rural Bank of Sta. Catalina, Inc. in Ilocos Sur, voluntarily executed Affidavits of Waiver of Rights (AOWRs) under the Law on Secrecy of Bank Deposits, in connection with their complaints about the bank's inability to service their withdrawals. PDIC examination was conducted from 27 January to 7 February 1997.

The examination disclosed the following findings: a) unrecorded or improperly recorded deposits; b) absence of signature cards on file for some deposits; c) delayed computation and posting of interest on savings deposits; d) delayed recording of deposit and withdrawal transactions; e) over/under computation of deposit interest; f) issuance of certificates of time deposits (CTDs) in irregular sequence in violation of sound internal control; g) similar serial numbers of two sets of CTDs; and h) absence of register/logbook to monitor and control issuance of CTDs. Based on the above findings, RB Sta. Catalina was directed to correct the irregularities uncovered.

RB Sta. Catalina was subsequently closed by the Monetary Board a year later, in January 1998. While many of the exceptions remained uncorrected upon takeover by PDIC, substantial corrections were made on computations of interest and withholding tax. The unrecorded deposits were booked and some deposit transactions erroneously recorded have been adjusted.

In February 1997, depositors of Rural Bank of Bantay, Inc., also in Ilocos Sur, executed AOWRs upon learning of the RB Sta. Catalina incident. They even went to the extent of forming a group called "Victims of Bantay".

The examination conducted in March 1997 disclosed the following findings: a) unrecorded deposits of some complainants; and b) discrepancies between date of issuance of CTDs and date of recording. In addition, the examiners discovered cash shortage of P4 million and DOSRI loans of P8 million recorded under the names of other persons. RB Bantay was placed under receivership on 17 March 1997, three days after the conduct of the PDIC examination.

The pre-examination of deposit accounts in these banks prior to closure facilitated the early settlement of depositors' claims by PDIC. The Corporation has started paying the claims of depositors on 24 June 1997 for RB Bantay (less than 3.5 months after closure) and 16 April 1998 for RB Sta. Catalina (3 months after closure).

Below is the profile of deposit accounts examined by PDIC as authorized by depositors who recognized the protection of their interest when deposit records are accessed by regulators:

	RB Sta. Catalina	RB Bantay
A. Total number of complaining depositors	137	189
B. Total deposit accounts of all depositors as of closure	1,150	716
No. of accounts of complaining depositors	169	313
Percentage to total	14.70%	43.72%
C. Total deposit liabilities as of closure	P9.09M	P19.05M
Amount of deposits of complaining depositors	P4.81M	P17.44M
Percentage to total	52.91%	91.58%
D. No. of accounts of complaining depositors by deposit size	169	313
< 100	8	0
100 - < 500	12	2
500 - < 1,000	2	1
1,000 - < 5,000	39	16
5,000 - < 10,000	11	24
10,000 - < 50,000	55	98
50,000 - < 100,000	23	129
100,000	19	31
above 100,000	0	12
E. Percentage of accounts of complaining depositors with deposit size below P100,000 to total accounts of complaining depositors	88.76%	86.26%

modalities: (a) direct loans; (b) purchase of assets; (c) assumption of liabilities; and (d) placement of deposits. Assistance extended is premised on a determination that the cost will be less than the estimated net cost of deposit insurance pay-off and recoveries from liquidation in the event of bank closure.

In 1992, PDIC extended P320 million direct loan assistance to Insular Savings Bank, while PDIC's subrogated claims from the Philippine Veterans Bank in the amount of P80 million was converted into loan (Table 3.1). PDIC's assistance to Westmont Bank in 1994 amounting to P1.40 billion was through purchase of assets but with unconditional commitment to repurchase said assets. In 1995, the Network Rural Bank was granted P75 million assistance under the Countryside Financial Institutions Enhancement Program.

For systemic reasons, Monte de Piedad & Savings Bank (now known as Keppel Monte Bank) was granted P1.50 billion assistance in 1997, through purchase of its non-performing loans. PDIC's share of the rehabilitation cost amounted to P325 million which was less costly than the estimated P430 million net cost of closure, that is, cost of deposit insurance pay-off net of expected recoveries from liquidation. The remaining P1.175 billion was granted by BSP with PDIC as conduit. Unlike a direct loan or purchase of asset with buy-back arrangement, Monte de Piedad has no obligation to pay any principal since the assistance was an outright purchase of assets (Box 3.3).

Outstanding receivables on financial assistance in the form of loans as of the yearend amounted to P1.64 billion. Repayment of loans for the year totaled P129.40 million from three banks.

Table 3.1 OUTSTANDING RECEIVABLES ON FINANCIAL ASSISTANCE

Yearend Position, Amounts in Million Pesos

Type of Bank	No.	Date Granted	Amount of Financial Assistance	**Outstanding As of 1997**
Commercial	2	8/3/92 [a]	80	**40**
		6/20/94 [b]	1,395	**1,318**
Thrift [c]	1	6/30/92	320	**208**
Rural [d]	1	2/22/95	75	**75**
Total [e]	4		**1,870**	**1,641**

Note Refers to financial assistance extended starting 1992
[a] Per R A 7169 that reopened the Philippine Veterans Bank, PDIC was mandated to convert into 7-year loan the payments made to insured depositors.
[b] One commercial bank is planning to prepay within the second semester of 1998
[c] The bank is planning to prepay within the first semester of 1998
[d] Incentive of merger of 6 rural banks in Mindanao
[e] Excludes financial assistance extended to Monte de Piedad and Savings Bank

Box 3.3 MONTE DE PIEDAD AND SAVINGS BANK

Monte de Piedad & Savings Bank (MPSB) began its operations in 1882, making it the oldest thrift bank in the country. Its client base is composed mostly of Catholic parishes, schools, church organizations, charitable institutions, NGOs, and over 90,000 small depositors. As of April 1997, the bank had 31 branches nationwide with an asset size of P4.53 billion and a deposit base of P2.76 billion.

In an effort to better serve its clients, particularly majority of whom are poor, Monte embarked on a "pro-poor" retail lending program in 1991 that involved a micro-lending scheme designed for teachers, salaried employees, and tricycle drivers. Lacking the necessary infrastructure to distribute and collect daily payments, the bank entered into an agreement with lending conduits – Strategic Lending, Inc. (SLI) for loans to salaried employees and to members of the Tricycle Operators and Drivers Association (TODA) and AMCO Industrial Sales for salary and appliance loans to members of the Philippine Public School Teachers Association (PPSTA). SLI was incorporated five months after the start of MPSB's retail lending program with a capital of only P100,000. Thus, it had little resources to carry out its responsibilities and no established track record of efficient distribution and collection of loans. After MPSB bought SLI promissory notes, the lending investor experienced phenomenal growth. AMCO, on the other hand, is a dealer of home appliances and industrial machinery owned by former Ilocos Sur Governor Antonio Villanueva.

The 'no-recourse' arrangement allowed loan conduits to earn commission on promissory notes sold to the bank regardless of the quality of loans. This created a moral hazard problem, as lending investors were given the incentives to lend in great volumes for greater profits, while the risks are passed on to the bank.

MPSB discounted the loans granted by the conduits by 40% and instantaneously took up income, thereby allowing for significant increases in the bank's recorded assets and income. With a return of approximately 76%, the conduit concentrated on loan expansion rather than on loan collection. The excessively high lending rates proved to be onerous to the borrowers, especially to tricycle drivers and operators. The effective rate charged to the individual borrower was 182% for three (3) years or roughly 5% per month. The daily amortization for tricycle loans ranged from P140 to P161. This daily obligation, together with the regular daily boundary per unit ranging from P60 to P100, was beyond the paying capacity of the tricycle operators.

The excessively high lending rates that weakened the paying capacity of the bank's borrowers and the absence of controls to ensure strict payment remittance, exacerbated by the partial and late remittance to the bank by the conduit, worsened the quality of the bank's consumer loans. For salary loans, the employers were not contracted as collecting agents, thus collections were not made via salary deduction. The responsibility to collect was vested on the labor union, which did not have access to employees' payroll. In the case of tricycle loans and salary/appliance loans of teachers, the conduits (SLI and AMCO) were made responsible for the collection and remittance to the bank, but there were no controls in place to ensure that collections are fully and promptly remitted to the bank. Worse, the Memorandum of Agreement entered with the conduits and individual third parties stated that MPSB's exposure was not to SLI and AMCO, but to the individual borrowers. As such, the bank has no legal recourse to the conduits. This prompted MPSB to take over the conduit's responsibilities in 1994 even without the necessary system to do daily collections.

Discovery by the Roman Catholic Archdiocese of Manila (RCAM), the majority owner, of the serious failure of the program prompted top bank officials to resign. A year later, RCAM sold about 70% of its common shares and 60% of its preferred shares to a new group of investors headed by Dr. Vicente Tan. The entry of new management under the Tan Group failed to improve the bank's condition particularly since no fresh capital was infused. Instead, the Tan Group borrowed money from the bank to pay for the shares acquired from Monte's former owners.

Subsequent PDIC examinations in 1996 revealed that the bank had engaged in hazardous lending practices which included large unreported DOSRI loans, failed to provide adequate reserves for probable losses, and had been operating with serious capital inadequacy. PDIC had repeatedly required the Tan Group to infuse capital and rectify the noted DOSRI violations and address the bank's precarious condition including the need to lower interest offered on deposits. By 1997, before the negotiations for the bank's rehabilitation was finalized including possible PDIC financial assistance, MPSB's problem was leaked to the press which spurred a bank run on April 21 and 22, until the bank declared a holiday beginning 23 April 1997.

To protect the interests of depositors and avert systemic repercussions in the banking sector by a bank closure, PDIC and BSP met with prospective investors on terms for additional capital infusion to reopen the bank with resources adequate to meet deposit calls and normalize its condition. The Lippo Group's proposal received the nod of the Monetary Board (MB) over the proposals of Metrobank and Equitable Bank. However, Dr. Tan, with Keppel Group of Singapore as partner, exercised his right granted by the MB to match Lippo's bid and thereafter relinquished all his shares to Keppel.

With the MB-approved rehabilitation plan, PDIC and BSP purchased P1.5 billion of MPSB's non-performing assets on 7 May 1997, paving the way for the bank's reopening which was renamed Keppel Monte Bank. PDIC contributed P325 million of the rehabilitation cost, while BSP provided the remaining P1.175 billion thru PDIC.

The MB deemed it prudent for BSP to underwrite the cost of P1.175 billion for systemic concerns. BSP extended a total of P2.5 billion in the form of a loan to PDIC. The remaining P1.325 billion, to be managed by BSP in favor of PDIC, would be invested in government securities for approximately 20 years to recover the P2.5 billion loan plus interest.

The new owners infused P1 billion, P300 million of which was paid as premium for acquiring the Bank and Keppel's contribution to eliminate the bank's negative net worth estimated at P1.8 billion. All DOSRI loans and other obligations of Dr. Tan and his group to the bank were fully paid soon after reopening. Keppel also voluntarily infused an additional P300 million capital, replaced top management, and installed new systems in the bank's operations, and renamed the bank as Keppel Monte Bank to strengthen its image of stability emanating from its Singaporean owner.

The MPSB case brings to fore the need to regulate lending investors, particularly since they can cause failure of banks to which they sell their loan portfolio. With this sector virtually unregulated, investors risk losing their savings, while borrowers are victimized by the onerous lending charges.

DEPOSIT INSURANCE OPERATIONS

The primary mission of PDIC is to provide protection to depositors in Philippine banks. The best means of depositor protection is to ensure stability of the banking system by promoting safe and sound banking practices. In the event of bank failure, PDIC, as insurer, should promptly pay the right depositor his insured deposit.

Insurance Coverage

Deposit insurance premium is assessed on total deposit liabilities at a maximum rate of 1/5 of 1% per annum, collected semi-annually from member banks, not later than 31 January and 31 July. Semi-annual assessment is based on average deposit liabilities at the end of two quarters preceding the collection period. Regular field and desk audits of banks' deposit levels are conducted to verify accuracy of remittances by member banks.

Collections for 1997 totaled P2.63 billion, an increase of 29.0% from P2.04 billion in 1996, and 162.5% greater than the 1993 level. Commercial banks, comprised of private and government banks, remain the major contributors accounting for P2.34 billion or 89.2% of total collection (Table 4.1). Specialized government banks accounted for 9.4% of total collections from commercial banks. Collections from thrift banks amounted to P218.14 million, followed by rural banks which totaled P65.70 million, comprising 8.3% and 2.5% of total collections, respectively. It can be noted that the trend in percentage share of collections by type of banks has remained the same over the past five years.

All deposit accounts are covered by deposit insurance with 93.3% fully covered up to the maximum insured amount of P100,000. For rural banks, 98.5% of all deposit accounts is fully insured, followed by 95.8% for thrift banks, 93.2% for specialized government banks, and 90.9% for commercial banks. Total insured deposits reached P292.49 billion, a 12.8% increase over the previous year's level and 54.1% over 1993 level. Depositors in rural banks enjoy the biggest share of deposit insurance protection, both in terms of number of accounts and amount of insured deposits. In 1997, 59.6% of total deposits in rural banks are insured, compared to 19.2% in private commercial banks, 12.5% in government banks, and 28.7% in the case of thrift banks (Chart 4.1).

Conversely, only 20.6% of the P1.42 trillion deposits in the banking system are insured. While a greater proportion of total deposits in rural banks is insured, the ratio of premiums paid by rural banks to insured deposits

Table 4.1 RATIO OF PREMIUM TO INSURED DEPOSITS,1993-1997

Accounts in Thousands, Amounts in Million Pesos

Type of Banks	INSURED DEPOSITS [a]										PREMIUM REMITTED [b]					RATIO OF PREMIUM TO INSURED				
	1993		1994		1995		1996		1997		1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount										
Commercial Banks	11,161	156,114	11,262	157,027	11,791	190,835	12,404	211,314	13,721	230,715	900	1,139	1,436	1,830	2,344	0.58%	0.73%	0.75%	0.87%	1.02%
Private Banks	10,762	151,088	10,768	149,264	11,173	181,282	11,642	199,563	12,814	216,302	811	997	1,300	1,651	2,123	0 54%	0 67%	0.72%	0 83%	0.96%
Specialized Government Banks	399	5,026	494	7,763	618	9,553	762	11,751	907	14 413	89	142	136	179	221	1 77%	1 83%	1.42%	1 52%	1.53%
Thrift Banks	2,934	22,925	2,953	25,923	4,737	27,693	4,594	31,048	3,866	41,085	79	97	128	157	218	0.34%	0.37%	0.46%	0.51%	0.53%
Savings & Mortgage Banks	1,401	14,613	1,428	16.673	3,270	17,058	3,076	18,185	1,952	23.453	53	64	83	111	100	0.36%	0 38%	1.87%	0 61%	0.43%
Savings & Loans Associations	915	3,869	857	3,966	782	4,446	810	5,344	958	6 505	17	23	32	27	95	0.44%	0.58%	0.52%	0 51%	1 46%
Private Development Banks	618	4,443	668	5,284	685	6,189	708	7,519	956	11.127	9	10	13	19	23	0.20%	0 19%	0 21%	0.25%	0.21%
Rural Banks	3,752	10,738	3,810	12,651	3,836	14,305	3,862	16,824	3,987	20,689	22	28	37	50	66	0.20%	0.22%	0.26%	0.30%	0.32%
TOTAL	17,847	189,777	18,025	195,601	20,364	232.833	20.860	259,186	21.573	292.489	1,001	1,264	1,601	2,037	2,628	0.53%	0.65%	0.69%	0.79%	0.90%

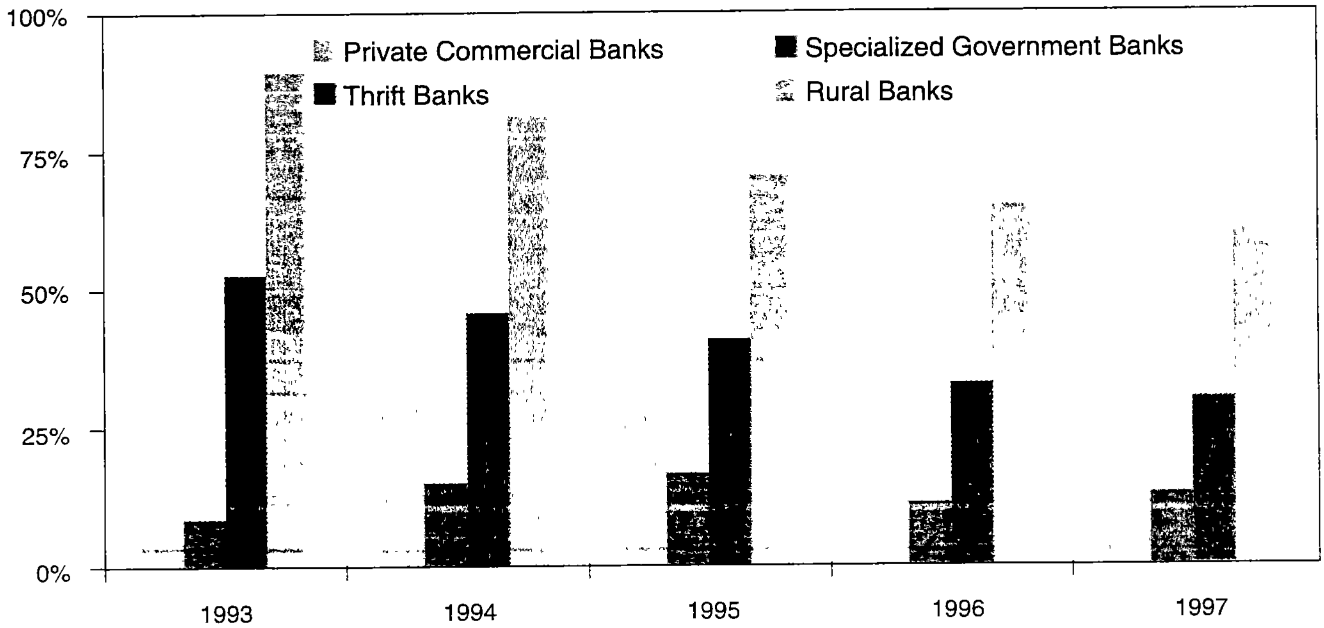
[a] As of June 30 of the reference year

[b] Premium remitted includes assessment deficiencies collected

is lowest at 0.32%, which is close to the premium rate of 0.20%. The ratio of premiums paid by government banks to total insured deposits is 1.53%, followed by private commercial at 0.98%, and thrift banks at 0.53% (Table 4.1, Chart 4.2). The high ratio for government banks is due to the fact that the government is required to deposit with government banks, and therefore in some cases, pay premium greater than the maximum insurance cover of P100,000. This is in effect a significant subsidy from the government to the deposit insurance system.

Chart 4.1 RATIO OF INSURED TO TOTAL DEPOSITS, 1993-1997

Amounts in Million Pesos

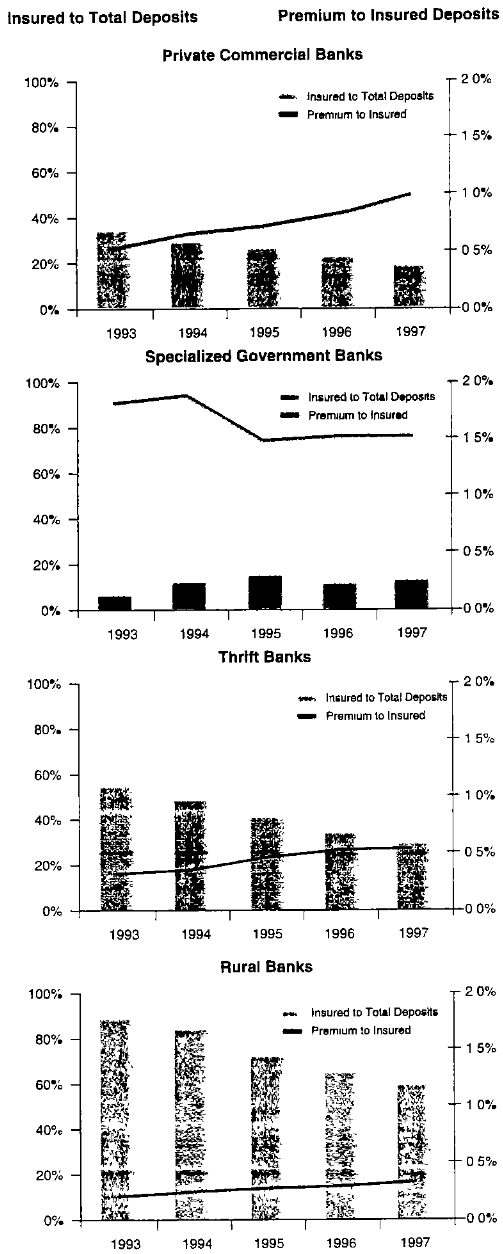


Type of Bank	1993			1994			1995			1996			1997		
	Total Deposits	Insured Deposits	Insured/ Total (%)	Total Deposits	Insured Deposits	Insured/ Total (%)	Total Deposits	Insured Deposits	Insured/ Total (%)	Total Deposits	Insured Deposits	Insured/ Total (%)	Total Deposits	Insured Deposits	Insured/ Total (%)
Commercial Banks	**496,084**	**156,114**	**31.47%**	**579,984**	**157,027**	**27.07%**	**763,108**	**190,835**	**25.01%**	**979,763**	**211,314**	**21.57%**	**1.243,212**	**230.715**	**18.56%**
Private Banks	432,256	151,088	34 95%	517,331	149,264	28 85%	693,183	181,282	26 15%	878,018	199,563	22.73%	1,127,767	216,302	19.18%
Specialized Government Banks	63,828	5,026	7 87%	62,653	7,763	12.39%	69,925	9,553	13.66%	101,745	11,751	11 55%	115,445	14,413	12 48%
Thrift Banks	**42,821**	**22,925**	**53.54%**	**55,871**	**25,923**	**46.40%**	**69,987**	**27,693**	**39.57%**	**97,854**	**31,048**	**31.73%**	**143,086**	**41,085**	**28.71%**
Savings & Mortgage Banks	28,004	14,613	52 18%	38,579	16,673	43.22%	44,601	17,058	38.25%	55,537	18,185	32 74%	76,163	23.453	30 79%
Savings & Loans Associations	4,903	3,869	78 91%	5,570	3,966	71.20%	6,921	4,446	64.24%	10,760	5,344	49 67%	13,828	6,505	47.04%
Private Development Banks	9,914	4,443	44.82%	11,722	5,284	45.08%	18,465	6,189	33 52%	31,557	7,519	23 83%	53,095	11,127	20.96%
Rural Banks	**12,286**	**10,738**	**87.40%**	**15,251**	**12,651**	**82.95%**	**20,411**	**14,305**	**70.08%**	**25,849**	**16,824**	**65.09%**	**34,703**	**20,689**	**59.62%**
TOTAL	**551,191**	**189.777**	**34.43%**	**651,106**	**195,601**	**30.04%**	**853.506**	**232,833**	**27.28%**	**1,103,466**	**259.186**	**23.49%**	**1,421.001**	**292.489**	**20.58%**

Notes:

1 Total deposits and insured deposits as of end of June of the reference year
2 Deposit data refer to deposits of PDIC member banks, excluding overseas branches
3 Starting 1993, PNB is re-classified to private commercial bank
4 Government banks include DBP, LBP, and Phil Amanah Bank Starting 1995, Phil Amanah Bank is excluded.

Chart 4.2 DEPOSIT INSURANCE RATIOS, 1993-1997



Termination of Insured Status

During the year, no bank was terminated of its insured status. Of the eight banks still operating even without insurance coverage at the start of the year, two were closed by yearend 1997, namely Rural Bank of Cabarroguis in Quirino and Rural Bank of Dolores in Eastern Samar (Table 4.2).

Seventeen rural banks in Lanao del Norte and Lanao del Sur have not paid insurance premium since 1970, although insured status of said banks were terminated only in 1993 after the PDIC was empowered through amendment of its Charter in 1992 to terminate insured status of member banks due to non-payment of premium. This in effect, penalizes depositors for acts which are not of their own doing and beyond their control. Pending examination by the BSP and closure by the MB, these banks remain inactive to date.

Table 4.2 BANKS TERMINATED OF INSURED STATUS DUE TO NON-PAYMENT OF PREMIUM
As of 31 December 1997

	Name of Bank	Province	Termination Date		Remarks
			Effectivity	90th Day *	
Thrift Bank					
1	Panay Thrift Bank	Aklan	08-Jul-94	05-Oct-94	Closed-09-Nov-94 [a]
Rural Bank					
1	RB of Greater Baloi, Inc.	Lanao del Norte	27-Jan-93	27-Apr-93	Not Operating
2	RB of Masiu, Inc.	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
3	RB of Ganassi, Inc	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
4	RB of Butig, inc.	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
5	RB of Pualas, inc.	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
6	RB of Calawi-Bacolod Grande	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
7	RB of Ditsaan-Ramain, inc	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
8	RB of Taraka, Inc	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
9	Islamic City of Marawi RB, Inc	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
10	RB of Poona-Bayabao, Inc.	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
11	RB of Lumba-Bayabao, Inc	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
12	RB of Tamparan, Inc	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
13	RB of Mulondo, Inc.	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
14	RB of Malabang, Inc	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
15	RB of Tugaya, Inc	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
16	RB of Lumbatan, Inc.	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
17	Integrated RB of Binidayan, Inc	Lanao del Sur	27-Jan-93	27-Apr-93	Not Operating
18	RB of Calintaan, Inc.	Occ. Mindoro	19-Mar-93	17-Jun-93	Closed-05/14/93
19	RB of Oas, Inc.	Albay	19-Mar-93	17-Jun-93	Operating [c]
20	RB of Roxas, Inc	Palawan	19-Mar-93	17-Jun-93	Operating [c]
21	RB of Lala, Inc.	Lanao del Norte	19-Mar-93	17-Jun-93	Closed-06/03/94 [a]
22	RB of Camalaniugan, Inc.	Cagayan	02-May-93	31-Jul-93	Operating [b]
23	RB of Polillo, Inc.	Quezon	02-May-93	31-Jul-93	Closed-07/26/93
24	RB of Espiritu, Inc.	Ilocos Norte	21-Dec-93	21-Mar-94	Closed-03/01/95 [a]
25	RB of Buug, Inc	Zamboanga del Sur	21-Dec-93	21-Mar-94	Closed-03/11/94
26	RB of Tayum, Inc.	Abra	08-Jul-94	05-Oct-94	Closed-10/05/94
27	RB of Patnongon, Inc	Antique	08-Jul-94	05-Oct-94	Closed-09/28/94
28	RB of Maayon, Inc	Capiz	08-Jul-94	05-Oct-94	Closed-10/05/94
29	RB of Pontevedra, Inc	Capiz	08-Jul-94	05-Oct-94	Closed-10/05/94
30	RB of Capiz, Inc	Capiz	08-Jul-94	05-Oct-94	Closed-10/05/94
31	RB of Sara, Inc.	Iloilo	08-Jul-94	05-Oct-94	Closed-10/05/94
32	RB of Balasan, Inc	Iloilo	08-Jul-94	05-Oct-94	Operating [b]
33	RB of Tumauini, Inc.	Isabela	11-Jan-95	10-Apr-95	Operating [c]
34	RB of Cabarroguis, Inc	Quirino	11-Jan-95	10-Apr-95	Closed-08/27/97 [a]
35	RB of Dolores, Inc	Eastern Samar	11-Jan-95	10-Apr-95	Closed-01/29/97 [a]
36	RB of Faire, Inc	Cagayan	17-Feb-96	16-May-96	Operating [b]

*** Deposits in banks terminated of insured status due to nonpayment of insurance premium continue to be insured for a period of 90 days from date of termination.**

Closed with insurance coverage	9
Closed without insurance coverage [a]	5
Not Operating (allegedly ceased to operate)	17
Operating	
with active application for reinstatement [b]	3
application for reinstatement considered withdrawn [c]	3
Total	37

Deposit Insurance Reserves

As of 31 December 1997, total insurance reserves was P15.32 billion, an increase of 29.8% over the 1996 level, and three times more than the 1993 level (Table 4.3). The insurance reserves is composed of (a) the Permanent Insurance Fund of P3 billion, (b) annual addition to the reserves based on the estimated losses that are expected to be incurred by the Corporation, and (c) retained earnings. The P12.09 billion estimated insurance losses for 1997, which is 41.1% higher than the 1996 level and almost 6 times that of 1993, was based on the Corporation's assessment of potential losses for banks that have been identified as likely to fail within the foreseeable future due to adverse financial trends, and losses arising from subrogated claims paid in closed banks not fully met by the realizable value of the banks' assets. While the Corporation cannot predict the precise timing and cost of bank failures, a reasonable estimate thereof is made and recorded in the period when the liability is deemed probable and reasonably estimable (see Note 1f of the Notes to Financial Statements).

Claims Management

Aware of the low turn out of claimants and the long period of processing claims, the Corporation continues to innovate to improve its claims management operations. Cognizant of the fact that access to information is the best way to empower depositors, the Corporation continues to strengthen its information dissemination to make depositors of closed banks, particularly small depositors, aware of their rights to claim payment for their insured deposits.

The time between bank closure and start of claims payment (turn around time or TAT) of insured deposits has been a major concern of the Corporation, noting the fact that there were instances in the past when it took more than a year to start claims settlement operations (CSO) from date of bank closure. In 1992, when the receivership and liquidation functions were turned over from BSP to PDIC in line with the latter's amended Charter, a sequential scheme of takeover, presettlement examination and claims settlement operation was adopted. This reduced the TAT to an average of nine months. To further shorten the TAT,

Table 4.3 INSURANCE RESERVES, 1993-1997

Yearend Position, Amounts in Million Pesos

ITEM	1993	1994	1995	1996	1997
Total Insurance Reserves	**4,214**	**6,949**	**9,051**	**11,799**	**15,320**
Permanent Insurance Fund	2,022	3,000	3,000	3,000	3,000
Estimated Insurance Losses	2,066	3,786	5,848	8,572	12,092
Retained Earnings	125	163	203	227	228
LESS:					
Payables to BSP	**3,360**	**1,748**	**1,746**	**1,760**	**2,950**
Principal	2,525	1,521	1,671	1,671	2,846
Accrued Interest	835	227	75	89	104
Net Insurance Reserves	**853**	**5,201**	**7,305**	**10,038**	**12,370**
Total Deposits	**638,144**	**797,905**	**1,011,296**	**1,285,582**	**1,654,762**
Insured Deposits	**188,805**	**220,724**	**248,835**	**268,150**	**315,081**
RATIOS (in %):					
Net Insurance Reserves to Insured Deposits	**0.45**	**2.36**	**2.94**	**3.74**	**3.93**
Net Insurance Reserves to Total Deposits	**0.13**	**0.65**	**0.72**	**0.78**	**0.75**

Notes:

1 Deposit data refer to deposits of PDIC member banks, excluding overseas branches

2 Starting 1993, PNB is re-classified to private commercial bank

3 Government banks include DBP, LBP, and Phil Amanah Bank Starting 1995, Phil Amanah Bank is excluded

Sources:

a) Financial Statements and Annual Reports

b) Bank Performance Monitoring Center records a joint takeover-examination scheme (Joint TOC-PEC) was introduced in 1995 and later modified to Joint Takeover-Examination-Communication scheme. Under this scheme, inventory of closed banks' assets and accounting for liabilities were conducted simultaneously with the detailed verification of deposit accounts and public information campaign on PDIC processes and requirements.

Since implementation of the above cited scheme, PDIC has been able to significantly shorten TAT to an average of two months from an average of nine months. Correspondingly, servicing of deposit accounts, measured by the ratio of the number of deposit accounts serviced versus total number of deposits, posted an average of 41.6% in 1996 – 1997 against the 1993 – 1995 level of 31.3% (Table 4.4, Chart 4.3). The 41.6% average for 1996-1997 is expected to increase further as claims are continuously being filed by depositors of banks closed in 1997 before the 18-month prescriptive period from date of closure within which to file claims expires.

Table 4.4 SERVICING OF INSURED DEPOSITS

(Amounts in Million Pesos)

Closed Bank [a]	Data of Closure	Prescriptive Date For Filing of Claims [b]	Deposit Liabilities (DL) at Closure		Serviced Deposits (SD) [c]		Insured Deposits Paid (IDP)		SD/DL (%)		IDP/DL (%)	
			Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount
1994												
RB of Cauayan	03-May-94	25-Aug-95	1,518	1.88	496	1.67	444	1.18	32.67	88.88	29.25	62.72
RB of Buug	11-Mar-94	04-Sep-95	5,847	5.16	1,479	4.26	1,318	2.96	25.30	82.59	22.54	57 46
RB of Libacao	04-Apr-94	26-Sep-95	3,518	6.90	1,430	6.51	1,293	4.32	40.65	94.26	36.75	62.59
RB of Patnongon	28-Sep-94	21-Mar-96	1,970	0.33	169	0.23	138	0.20	8.58	71.60	7.01	61.53
RB of Sara	05-Oct-94	01-Sep-97	3,159	7.93	225	4.44	99	0.04	7.12	55.94	3.13	0.47
RB of Tayum	05-Oct-94	01-Apr-96	237	1 02	59	0.94	31	0.12	24.89	92.05	13 08	11 80
RB of Baras	14-Oct-94	06-Apr-96	5,473	15.11	1,993	14.12	1,936	12.17	36.42	93.49	35 37	80.56
RB of Imelda	26-Oct-94	18-Apr-96	1,473	0 53	133	0.37	105	0.14	9.03	69.24	7 13	27 07
RB of Tuba	02-Nov-94	25-Apr-96	2,325	4.85	139	4 48	83	1.30	5 98	92.38	3.57	26.74
RB of Kidapawan	24-Nov-94	17-May-96	10,832	28 21	3,797	27.21	3,605	15.25	35 05	96.45	33.28	54 06
RB of Bacarra	05-Dec-94	28-May-96	1,501	17 56	1,029	15 08	823	10 90	68 55	85.90	54.83	62.06
TOTAL			37,853	89 47	10,949	79.30	9,875	48.57	28 93	88 64	26 09	54.29
1995												
Mariveles SLB	26-Jan-95	19-Jul-96	5,377	16 32	2,204	14 97	2,130	13.98	40 99	91.74	39 61	85 71
RB of Tacloban	24-Feb-95	19-Aug-96	201	0 77	59	0 74	52	0 30	29.35	95.50	25.87	38.70
RB of Sta. Maria	10-Mar-95	31-Aug-96	828	6.70	485	6.09	468	5.94	58.57	90 94	56 52	88.71
RB of Aringay	16-May-95	06-Nov-96	1,071	2 83	386	2.33	307	1 90	36.04	82.31	28.66	67.25
RB of Moncada	19-May-95	09-Nov-96	1,878	12.34	838	8.94	777	8.14	44 62	72 49	41.37	65 98
RB of Manabo	24-Jul-95	14-Jan-97	162	0.88	109	0.83	105	0.72	67 28	94.53	64.81	81.73
RB of Malvar	25-Aug-95	17-Feb-97	2,554	5.90	514	5 28	509	5.22	20.13	89 51	19 93	88 51
RB of Manhatag	23-Oct-95	15-Apr-97	269	2.03	166	1.99	138	1 18	61.71	98.08	51.30	58.07
TOTAL			12,340	47.76	4,761	41.17	4,486	37.38	38.58	86.20	36.35	78.28
Ratio of Serviced Deposits to Total Deposits (1993-1995)									**31.30**	**87.79**	**28.61**	**62.64**
1996												
RB of San Vicente de Ferrer	12-Apr-96	06-Oct-97	1,683	7 04	678	5.22	584	4 65	40.29	74 09	34 70	66 04
RB Santiago	19-Apr-96	13-Oct-97	211	1.36	174	1.35	158	1.25	82 46	99 54	74 88	92 47
RB of Candaba	21-Jun-96	13-Dec-97	3,534	30.92	1,253	29.96	1,117	19 20	35.46	96.91	31.61	62.09
RB of San Simon	19-Jul-96	10-Jan-98	997	24.39	477	22 01	368	10.69	47.84	90.22	36 91	43.80
RB of Pandan	30-Aug-96	23-Feb-98	2,945	4 04	1,146	3 57	1,058	3.14	38 91	88 40	35.93	77.70
RB of Catarman	18-Dec-96	19-Jun-98	111	3.90	72	3.07	66	2.67	64.86	78.56	59.46	68 39
TOTAL			9,481	71.65	3,800	65.17	3,351	41.59	40.08	90.96	35.34	58 05
1997												
RB of Pacay	07-Feb-97	01-Aug-98	1,549	12 14	955	10.51	889	9.05	61 65	86.57	57.39	74.51
RB of Bantay	17-Mar-97	08-Sep-98	634	18.91	481	23.94	404	16.40	75.87	126.59	63.72	86.73
RB of Baao	16-May-97	09-Nov-98	1,641	28.08	628	6.08	568	2 38	38.27	21.65	34.61	8.49
RB of San Fernando	23-May-97	16-Nov-98	652	29.35	369	22.28	335	19.90	56 60	75.89	51.38	67.80
RB of Aurora	26-May-97	17-Nov-98	669	2 86	323	2 04	213	1.19	48 28	71.42	31 84	41.51
RB of Pidigan	06-Jun-97	01-Dec-98	23	0 13	1 [d]	0.00037 [d]		-				
RB of Bobon	09-Jun-97	01-Dec-98	154	0.73	64	0.07	45	0.02	41.56	9.18	29.22	2 34
RB of Libungan	09-Jun-97	01-Dec-98	537	0 51	113	0 25	82	0.22	21.04	49.23	15.27	43.57
RB of Tayasan	13-Aug-97	04-Feb-99	2,143	4.23	362	2.79	342	2.68	16.89	65.94	15.96	63.23
RB of Sto Domingo	10-Oct-97	05-Apr-99	506	8 76	387	7.36	364	6 71	76.48	84 06	71.94	76.68
TOTAL			8,508	105 71	3,683	75.32	3,242	58.55	43.29	71.26	38 11	55.39
Ratio of Serviced Deposits to Total Deposits (1996-1997)									**41.60**	**79.22**	**36.65**	**56.46**

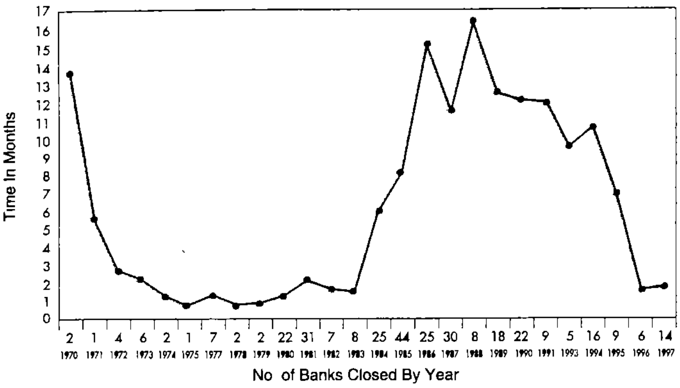
[a] Excludes three banks closed in 1994 and two banks closed in 1997 where claims settlement operations have not yet started

[b] A depositor of a closed bank has 18 months from date of closure to file his claim against PDIC for his insured deposit The prescriptive date indicated in this column is the last date for filing claims for insured deposits in the closed bank

[c] Claims for insured deposits filed

[d] Balance of the claimed deposit is only P 372 26

Chart 4.3 Average Turn Around Time
1970-1997



Despite efforts to improve internal processes, problems beyond the control of the Corporation continue to hamper the attainment of its goal. For instance, in the case of RB Bobon in Northern Samar and RB Tayasan in Negros Oriental which were closed in 1997, Temporary Restraining Orders (TROs) filed by bank owners delayed the takeover process. TROs, no matter how brief, are crucial since these give bank owners a chance to tamper with bank records. The examination of deposits is invariably prolonged by the poor state of bank records, a problem that could greatly be addressed if these records are periodically examined by PDIC examiners while the banks are still in operation. Access to deposit records would not only allow PDIC to ensure proper recording of deposits and maintenance of deposit records, withholding taxes on deposit interest, reporting of dormant deposits to the National Government in accordance with the Unclaimed Balances Act (Act No. 3936, As Amended), but also enable early determination of deposit accounts for consolidation and/or offset, significantly facilitating the early start of settlement of claims for insured deposits in the event of bank closure.

Cumulative payments of insured deposits reached P3.38 billion as of 1997 involving 1.2 million accounts in 308 closed banks (Table 4.5). This is exclusive of deposit accounts in 15 banks closed with insured status terminated. For the year alone, insured deposit claims for 4,060 accounts amounting to P73.05 million were paid, of which P1.27 million represents taxes withheld by PDIC on interest income on insured deposit remitted to the government during the year. The issue on the proper way of withholding

Table 4.5 CLAIMS SETTLEMENT, 1993-1997
Yearend Position, Amounts in Million Pesos

		1993		1994		1995		1996		1997	
CLOSED BANKS SERVICED		268		274		287		296		308	
DEPOSIT LIABILITIES	Accounts	4,783,852	-	4,795,108	-	4,834,172	-	4,849,540	-	4,861,624	-
	Amount	4,366.85	-	4,392.34	-	4,496 51	-	4,596.53	-	4,697.80	-
DEPOSITS SERVICED	Accounts	1,196,249	25.01%	1,199,413	25.01%	1,204,791	24 92%	1,215,094	25 06%	1,219.486	25.08%
	Amount	3,874 89	88.73%	3,864.00	87 97%	3,725.77	82 86%	3,863 8	84.06%	3,953.10	84.15%
Payments of Insured Deposits: Paid to Depositors	Accounts	1,131,218	23.65%	1,134,118	23 65%	1,144,632	23 68%	1,154,079	23 80%	1,158,139	23.82%
	Amount	3,149 13	72 11%	3,175.05	72.29%	3,240.93	72.08%	3.309 91	72.01%	3,382.96	72.01%
Withheld taxes remitted to BIR	Amount							0.62	0 00%	1.89	0.00%
Withheld taxes to be remitted to BIR	Amount									0.00011	0.00%
Pending Claims	Accounts	32,034	0 67%	31,795	0 66%	32,830	0 68%	33,704	0.69%	34,455	0.71%
	Amount	221.86	5 08%	175.93	4 01%	179 44	3.99%	256.86	5.59%	267.18	5.69%
Claims for deposits in excess of statutory limit, subject of offset,	Accounts	32,997	0 69%	33,500	0.70%	27,329	0 57%	27,311	0.56%	26.892	0.55%
denied or withdrawn	Amount	503.90	11 54%	513.02	11 68%	305 40	6.79%	296 40	6 45%	301.06	6.41%
UNSERVICED DEPOSITS	Accounts	3,587,603	74 99%	3,595,695	74.99%	3,629,381	75 08%	3,634,446	74.94%	3,642,138	74.92%
	Amount	491.96	11 27%	528 35	12 03%	770 75	17 14%	732 74	15.94%	744 71	15.85%

Note Numbers in % represent share to total deposit liabilities taxes on interest of insured deposits was finally settled with the issuance of Resolution No. 97-07-06 by the PDIC Board (Box 4.1)

Box 4.1 WITHHOLDING TAXES FROM INTEREST ON PAYMENTS OF INSURED DEPOSITS IN CLOSED BANKS

In the determination of insured deposits in a closed bank, taxes withheld on interest on bank deposits have been treated as deductions from the deposit balances and the amounts withheld have been set up in books of the bank as liabilities/payables to the Bureau of Internal Revenue (BIR). Thus, while the depositors were paid their insured deposits net of taxes, the withheld taxes were not remitted to the BIR. Being liabilities of the closed bank, these were to be settled at the time that the bank's converted assets are distributed to creditors.

However, after a thorough review of tax laws vis-à-vis the dual functions of PDIC as receiver and insurer, it was opined that, PDIC has been constituted a withholding agent for the payment of tax on the interest income of the depositor. In other words, the corresponding tax on any portion of the interest income that is covered by the insured deposit should be remitted to the BIR by PDIC.

On the other hand, there are still pending or unsettled/unpaid claims amounting to P267.18 million involving 34,455 deposit accounts (Table 4.6). This posted a 2.2% increase in accounts and 4.0% in amounts against the previous year's levels. The increase was largely due to the reversion to pending claims of deposits over the insured level previously consolidated under the name of the original depositor but are now being re-processed as a result of change in policy governing the splitting of deposits; and deposit claims which need further verification in the closed RBs of Bantay, Baao, and Sara.

Pending claims are divided into three groups. The first group representing 35% of the total pending claims as of yearend 1997, consisted of claims approved for payment and claimants have been notified of approval. The second group involves claims filed with incomplete documentation and claimants have been advised to complete necessary requirements. This also represents 35% of the total pending claims. The third refers to claims which involve legal issues to be resolved and/or need further verification.

Table 4.6 PENDING CLAIMS, 1993-1997

Yearend Position, Amounts in Million Pesos

STATUS		1993		1994		1995		1996		1997	
			% Share to Total		% Share to Total		% Share to Total		% Share to Total		% Share to Total
Awaiting Depositors to Claim Payment of Their Insured Deposits. Depositors have been notified of the approval of their claims.	Accounts	11,424	36%	11,379	36%	11,392	35%	11,464	34%	12,052	35%
	Amount	5.25	2%	5.06	3%	5.26	3%	5.60	2%	5.97	2%
Claims for Processing: 1) Deficiencies in documentation Claims filed by depositors without documents which are necessary to perfect their claims.	Accounts	17,111	53%	14,517	46%	16,056	49%	13,965	41%	12,121	35%
	Amount	174.68	79%	95.51	54%	96.83	54%	98 51	38%	88.93	33%
2) Pending resolution of legal issues/for verification of deposits claimed.	Accounts	3,499	11%	5,899	19%	5,382	16%	7,626	23%	10,282	30%
	Amount	41 93	19%	75.36	43%	77.35	43%	124.54	48%	172.28	64%
3) Previously denied claims which need reprocessing as a result of change in policy governing splitting of deposits.	Accounts							649	2%		
	Amount							28.21	11%		
TOTAL	**Accounts**	**32,034**	**100%**	**31,795**	**100%**	**32,830**	**100%**	**33,704**	**100%**	**34,455**	**100%**
	Amount	**221.86**	**100%**	**175.93**	**100%**	**179.44**	**100%**	**256.86**	**100%**	**267.18**	**100%**

Note: Excludes 205 claims filed which are adverse/not in the Masterlist of Deposits, comprising of 529 accounts worth P100 9 million

Recovery of Subrogated Deposits

Upon payment of insured deposits, PDIC subrogates into the right of a depositor to recover from the closed banks the amount paid on insured deposit. Claims for subrogated deposits are filed by PDIC with the Liquidator of the respective closed banks for settlement.

Aggregate claims for subrogated deposits filed for the year amounted to P932.68 million covering 174,618 insured deposit accounts paid by the Corporation. This brought to P3.24 billion the total claims filed against closed banks as of yearend 1997 including claims filed against the Manila Bank (still under receivership by the BSP) amounting to P851.29 million (Table 4.7).

As of 1997, the Corporation has recovered only 5.6% of the total claims filed and 5.4% of total insured deposits paid in 308 closed banks. Full recovery of P166.07 million from 30 banks and partial recovery of P15.02 million from four banks accounted for the total recoveries registered as of yearend 1997. In 1997 alone, the Corporation recovered a total of P9.68 million from the RB of San Pedro in Laguna and RB of Naga in Cebu.

Table 4.7 CLAIMS FOR AND RECOVERY OF SUBROGATED DEPOSITS, 1993-1997

Yearend Position, Amounts in Million Pesos

PARTICULARS	1993		1994		1995		1996		1997	
	No. of banks	Amount	No. of banks	Amount	No. of banks	Amount	No. of banks	Amount	No. of banks	Amount
SUBROGATED DEPOSITS (Insured Deposits Paid *)	**268**	**3,149**	**274**	**3,175**	**287**	**3,241**	**296**	**3,310**	**308**	**3,385**
Claims filed by PDIC against the closed banks	148	2,038	240	2,238	266	2,285	273	2,309	289	3,242
Claims not yet filed	120	1,111	34	937	21	956	23	1,001	19	143
RECOVERIES ON CLAIMS FILED	**24**	**159**	**27**	**159**	**30**	**163**	**32**	**171**	**34**	**181**
Partial recovery	1	8	1	0	1	0	2	5	4	15
Full recovery	23	151	26	159	29	163	30	166	30	166
CLAIMS FILED BUT NOT YET RECOVERED	124	1,879	213	2,079	236	2,122	241	2,138	255	3,061
RATIOS										
Recoveries to Subrogated Deposits	5.05%		5.01%		5 03%		5.17%		5.35%	
Recoveries to Total Claims Filed	7.80%		7.11%		7.14%		7 41%		5 58%	

* Consists of payments made to depositors and taxes remitted to BIR

RECEIVERSHIP AND LIQUIDATION

When a bank is ordered closed by the Monetary Board, PDIC, as the mandatory receiver, immediately takes over the bank, controls its assets and records, and preserves and administers them primarily for the benefit of the bank's depositors and creditors. PDIC will then have to determine whether the bank can be rehabilitated and resume business with safety to its depositors, creditors and other clients within 90 days after takeover; otherwise, it shall recommend the liquidation of the bank to the Monetary Board (MB). As liquidator, PDIC not only continues the preservation and recovery of assets of closed bank but also starts the disposal of these assets and subsequently distributes the proceeds therefrom to creditors in accordance with the rules on concurrence and preference of credits under the New Civil Code.

With the closure of 14 banks in 1997, the total number of banks that have been ordered closed reached 333 as of yearend 1997 (Table 5.1). Of the total, 272 were taken over by the BSP (then Central Bank of the Philippines) and 61 by PDIC. Of the 272 closed banks under the BSP, 26 were rehabilitated and 231 were turned over to PDIC from 1993 to 1995, after PDIC was given the mandate of receivership and liquidation through amendment of its Charter in 1992. Fifteen (15) banks, whose liquidation proceedings were nearing termination, remained under the administration of the BSP. Of the 61 banks directly taken over by PDIC, 13 are still under receivership as of yearend 1997. Altogether, these brought the total number of closed banks under PDIC receivership/liquidation to 292 or 5% higher than previous year's 278, composed of 1 commercial bank, 37 thrift banks and 254 rural banks.

The realizable value of the assets of the 292 closed banks is estimated at P9.66 billion which shall cover the liabilities/claims against these banks totaling P8.90 billion including the reimbursements to PDIC and BSP of receiver and liquidation expenses.

Table 5.1 BANKS UNDER RECEIVERSHIP AND LIQUIDATION, 1993-1997

	1993	1994		1995		1996		1997	
	Yearend Total	Addition/ (Deduction)	Yearend Total	Addition/ (Deduction)	Yearend Total	Addition/ (Deduction)	Yearend Total	Addition/ (Deduction)	Yearend Total
Receivership									
Under PDIC									
Direct takeover	4 [a]	16 [a]	20	9 [a] (11) [b]	18	6 [a]	24	14 [a] (25) [b]	13
Transferred from BSP	1		1	(1) [b]	–		–		–
Total – PDIC	5		21		18		24		13
Under BSP	6	(3) [c]	3		3		3		3
Yearend total	**11**		**24**		**21**		**27**		**16**
Liquidation									
Under PDIC									
Direct takeover	12		12	11 [b]	23		23	25 [b]	48
Transferred from BSP	79	3 [c] 66 [d]	148	80 [d] 1 [b]	229	2 [d]	231		231
Total – PDIC	91		160		252		254		279
Under BSP	163	(66) [d] (1) [e]	96	(80) [d] (1) [e]	15	(2) [d]	13	(1) [e]	12 [f]
Yearend total	**254**		**256**		**267**		**267**		**291**
Rehabilitated by the BSP	23	1 [e]	24	1 [e]	25		25	1 [e]	26
Grand total	**288**		**304**		**313**		**319**		**333**

[a] Closures during the year, total of 49 from 1993 to 1997
[b] From PDIC receivership to PDIC liquidation
[c] After change in status from receivership to liquidation; from BSP receivership to PDIC liquidation
[d] From BSP liquidation to PDIC liquidation
[e] From BSP liquidation to BSP rehabilitation
[f] Remained with BSP since liquidation proceedings are nearing completion

More than a third of the 292 closed banks under receivership and liquidation (R&L) of PDIC have liquid assets that could cover the expenses of PDIC and BSP in managing R&L operations, and subrogated claims or claims of PDIC from paying the insured depositors; about a quarter of these banks have liquid assets that can cover the R&L expenses and part of subrogated claims; and the rest of 115 banks either have inadequate or no funds to cover the R&L expenses.

Takeover Operations

Upon receipt of the Monetary Board order closing a bank and designating PDIC as receiver, a joint takeover team is immediately deployed to the bank. This team takes control of the bank; conducts an inventory of the assets, liabilities and records; examines the books and deposit records to determine the insured deposits; attends to the inquiries of depositors and other clients; and establishes linkages with media and community leaders on extensive information dissemination on the rights of depositors aimed to elicit depositors' interest, especially those in the low-income bracket, to file claims for insured deposits.

Fourteen banks (one thrift bank and 13 rural banks) were placed under receivership during the year (Table 5.2). Nine (9) of the 14 banks have been recommended for liquidation by the PDIC, of which 7 have been approved. As of yearend, there are still 5 banks under receivership consisting of one thrift bank and 4 rural banks.

For most of the banks, takeover was effected without any strong resistance on the part of the banks' management, except for Rural Bank of Bobon and Rural Bank of Tayasan where the owners not only resisted the takeover but even filed complaints against the PDIC, MB and the Deputy Receiver. Five rural banks (RBs Cabarroguis, Aurora, Pidigan, Sto. Domingo and Dolores) were already inoperative prior to closure. In fact, in RB Sto. Domingo in Ilocos Sur, the bank management had posted a notice to the public prior to closure, which read: "The provisions of Section 30 of RA 7653 is now being applied to our bank, hence, we would like to inform you that we are just arranging our records and putting them into orderly manner in preparation for the arrival of PDIC representatives. Sorry if we can't entertain you".

Table 5.2 SELECTED FINANCIAL DATA ON BANKS CLOSED IN 1997

Amounts in Thousand Pesos

No.	Closed Bank	Closure Date	Assets	Liabilities	Deposit Liabilities (DL)		Insured Deposits (ID)		% of ID to DL	
					Accounts	Amount	Accounts	Amount	Accounts	Amount
1	RB Dolores (Eastern Samar)	31-Jan-97	436 61	1,046.57	173	111.26	Insured Status Terminated			
2	RB Paoay (Ilocos Norte)	7-Feb-97	13,035.51	15,419 30	1,549	12,472.21	1,547	12,272.31	99.9%	98 4%
3	RB Bantay (Ilocos Sur)	17-Mar-97	27,269.09	30,140 38	634	18,953.87	536	18,568.58	84.5%	98.0%
4	RB Baao (Camarines Sur)	16-May-97	5,980 43	31,446 30	1,641	28,000.45	1,627	27,395 15	99 1%	97.8%
5	RB San Fernando (La Union)	23-May-97	27,975.91	31,089 05	652	29,650.87	637	27,069 01	97.7%	91.3%
6	RB Aurora (Zamboanga del Sur)	26-May-97	4,047 43	5,498.59	890	2,812.02	669	2,760.84	75.2%	98 2%
7	RB Pidigan (Abra)	6-Jun-97	9,427.36	11,497 18	23	116 92	8	73.21	34 8%	62.6%
8	RB Libungan (North Cotabato)	9-Jun-97	2,218 49	6,354.52	595	638.19	537	502.33	90.3%	78.7%
9	RB Bobon (Northern Samar)	9-Jun-97	11,529.40	14,636 43	154	724.51	134	720.37	87.0%	99.4%
10	RB Tayasan (Negros Oriental)	13-Aug-97	6,615.93	10,458.06	2,143	4,232 52	1,866	4,041.60	87.1%	95 5%
11	RB Cabarroguis (Quirino)	29-Aug-97	2,001 04	3,860.84	3,713	1,777 00	Insured Status Terminated			
12	RB Sto. Domingo (Ilocos Sur)	10-Oct-97	12,100.77	12,607.46	590	8,680 18	502	8,610.69	85 1%	99.2%
13	RB Candon (Ilocos Sur)	17-Oct-97	20,662.04	30,709.93	3,229	7,580.96	2,090	4,825.65	64.7%	63.7%
14	Eastern Visayas Dev't Bank	19-Dec-97	55,873 28	61,878.35	10,070	45,183.25	10,070	45,183.25	100.0%	100 0%
	TOTAL		**199,173.30**	**266,642.96**	**26,056**	**160,934.21**	**20,223**	**152,022.99**	**77.6%**	**94.5%**

Sources
Statements of Condition as of takeover
Presettlement Examination Reports
BSP General Examination Reports

The insured status of two banks (RB Cabarroguis and RB Dolores) was terminated prior to closure due to non-payment of insurance premium, as a result of which, the depositors were deprived of the protection of deposit insurance.

The inventory of the banks' assets, liabilities and records was conducted immediately after the closure orders were served. Several loan records were missing during the inventory, e.g., over 80% in the case of RB Aurora and 60% in RB Cabarroguis. In Eastern Visayas Development Bank (EVDB), several prime records were missing which made it difficult to establish the assets and liabilities of the bank as of closure date (Box 5.1). The problem of missing records in EVDB was reportedly an offshoot of the conflict between two groups over the control and management of the bank.

Other significant findings in the inventory of the banks' assets, liabilities and records are as follows:

a. In one rural bank, 71 loan accounts were found by the PDIC Investigation Center to be either loans to DOSRI (directors, officers, stockholders and other related interests) or fictitious. The latter were accordingly referred to PDIC Legal Group for the institution of appropriate legal action.

b. The deposit liabilities of one rural bank amounted to P0.12 million only but the rediscounting obligations to the BSP totaled P11.36 million (including accrued interest and liquidated damages as of bank closure) indicating that the bank's operation (i.e., granting of loans) was financed more by borrowings rather than by deposits generated.

c. Prior to closure, some of the deposits of RB Sto. Domingo were paid in kind (through conveyance of the banks' acquired real properties and motor vehicles) instead of the usual mode of paying in cash or check.

d. Two rural banks have the same controlling stockholder. One of these banks has receivables from the same stockholder in the amount of P3.5 million arising from non-remittance of loan collections, unliquidated cash advances and indirect loans. In the other rural bank, investigations revealed that aside from having obtained indirect loans totaling P5.28 million excluding interest, and

Box 5.1 EASTERN VISAYAS DEVELOPMENT BANK

The Eastern Visayas Development Bank (EVDB), formerly Island Development Bank, was organized in 1979 as a single-unit private development bank. In December 1994, the then President of EVDB conceptualized the organization of savers clubs, one purpose of which was "to encourage the habit of thrift, seek and develop sources of income for the organization members by helping to bring within the easy reach of such members the Bank's services, specifically but not limited to deposit, and business or livelihood credit financing and thereby facilitate said members' banking transaction with EVDB". Another officer of the bank was designated as implementor whose functions include the identification of municipalities where it would be feasible to establish a savers club, and to contact people who would assist in forming the clubs and at the same time be the incorporators.

The savers clubs were formed as non-stock, non-profit corporations. The first savers club was organized on 15 December 1994 as EVDB Savers Club of Alang-Alang, Leyte. EVDB detailed two of its personnel to this savers club. On 22 December 1994, the EVDB Savers Club of Tanauan, Leyte was formed. A field loan officer of EVDB was detailed to the second savers club. The savers clubs hired and assigned an Operation Supervisor at EVDB's office at Tacloban City.

In November 1995, EVDB was cited by the BSP for unauthorized branch banking by way of the EVDB Savers Clubs, numbering six (6) at the time, which were organized by the bank for the main purpose of generating deposits and processing loan applications outside the bank premises. Despite this, additional sixteen (16) savers clubs were thereafter organized, eleven (11) in Leyte and five (5) in Samar. In its subsequent general examination in January of 1997, EVDB management was advised by BSP that the clubs should be disbanded, as this is tantamount to establishing banking office without BSP approval. The EVDB management replied that the savers clubs would be converted into cooperatives.

In June 1997, a new group took over the management of the bank. The new management encountered several operational problems including heavy deposit withdrawals beginning 24 June 1997 and minimal loan collections. There were problems also in the accounting and recording of transactions since the previous management allegedly did not allow the new group access to password in computer programs and did not turn over the systems manual. Several prime bank records were also allegedly not turned over to the new group.

Because of the finding that the financial condition of the bank was one of insolvency, the Monetary Board ordered the closure of EVDB on 19 December 1997 and placed it under the receivership of PDIC.

clean loan in the principal amount of P2 million, there were irregularities that may be attributable to the stockholder concerned involving the land where the bank building is located.

e. One rural bank has receivables from its former cashier in the total amount of P23.41 million as a result of anomalies uncovered by the external auditor in the investigation of deposit transactions. Criminal cases have been filed by the former bank management against the cashier. As chances of recovering the receivables are remote, a 100% allowance for probable losses was set up by PDIC in the books of the rural bank.

Recovery, Administration and Disposal of Assets

Recoveries for 1997 aggregated P226.14 million, 7.43% lower than last year's P244.30 million. Of these, P150.74 million was from loan collection of principal, interests and penalties. The loan recoveries resulted significantly from compromise settlements which involved condonation of penalties and/or reduction of the contractual interest rates. In Piso Bank (closed in 1987) and Pacific Bank (closed in 1985), loan collections under this scheme during the year amounted to P36.75 million and P48.83 million, respectively. Among the compromises approved during the year was the proposal submitted by the former owners of Solid Homes Savings and Loan Bank (closed in 1984) for the global settlement of DOSRI loans with total principal balance of P13.55 million. The initial payment made by the former owners pursuant to the compromise agreement in the amount of P1.48 million formed part of the total loan collection for the year.

As part of the continuing initiatives to improve loan recovery, an incentive plan was approved during the year. Under this plan, offices of the regional state prosecutors assisting in loan collection will be given a commission equivalent to 3% of the total collection realized from the assistance extended. This strategy has resulted in the significant increase in loan collection in Region 6.

A total of P71.90 million was realized from disposal of properties through public bidding and negotiated sales; P3.35 million from rental fees; and P0.150 million from other sources such as interest earnings on closed banks' savings account.

The R&L Committee on Bids modified pertinent sections of the bidding rules to minimize opportunity losses whenever a failed bidding is declared due to presence of only one complying bid. The modified rules granted the Committee the discretion to recommend the acceptance of a lone bid, declare a failed bidding, or immediately pursue negotiated sale subject to the approval of the Liquidator. Further, the rule which prohibits PDIC employees from participating in the bidding was refined such that employees, other than those handling the liquidation of the banks and those belonging to Legal Services Group, may be allowed to bid provided that the Committee on Bids shall not entertain the bid when it is a lone complying bid; neither shall the committee entertain an employee's offer to purchase a property on a negotiated basis.

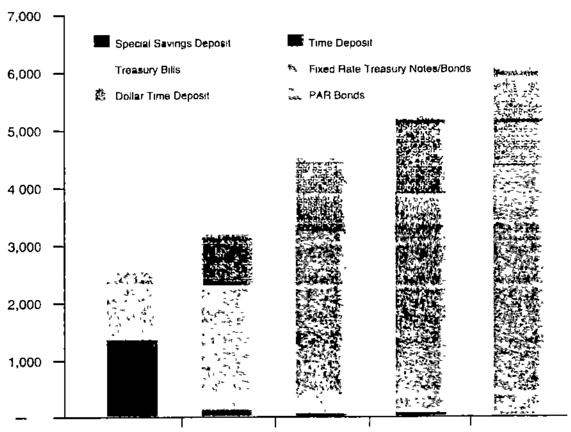
To address the slow process of transferring the agricultural land holdings of closed banks to the Department of Agrarian Reform (DAR), consultative meetings and dialogues were held with the DAR and Land Bank of the Philippines (LBP) regarding Republic Act No. 6657, otherwise known as the Comprehensive Agrarian Reform Program (CARP). This strategy has resolved a number of issues and accelerated land transfers, specifically the submission to DAR of lists of properties for possible CARP coverage. By yearend 1997, a total of 5,510 agricultural lands owned by 219 banks with an estimated area of 23,146 hectares have been submitted to DAR for possible CARP coverage.

On the artworks of closed banks, consultations with associations of gallery owners and other art experts/ dealers on approaches to and related considerations in the disposal of 132 paintings/artworks with appraised value of P1.15 million are on-going. This amount is exclusive of the 10 pieces of paintings with religious subjects worth P6.98 million and 39 pieces with various subjects worth P0.69 million that have not yet been appraised. These items were acquired by Perpetual Savings and Loan Bank in settlement of obligations to the bank.

To save on cost on administering closed banks' properties, particularly on the capital gains tax involved in the consolidation of titles in the names of the banks, PDIC availed of the incentives under the Voluntary Assessment Program (VAP) that the Bureau of Internal Revenue (BIR) launched in December 1997. The availment of VAP has, in a way, contributed to the recoveries of the closed banks by minimizing outflow of funds for penalties and surcharges imposed by BIR on regular assessments. For banks which were not able to avail of the program due to very limited time and problems encountered in producing the required documents, a request for extension of the program was submitted to BIR. Property taxes paid to different Municipal Treasurers amounted to P41.93 million.

Funds of closed banks being managed by the Corporation increased to P5.89 billion as of yearend 1997, of which P3.0 billion represents interests earned over the years under PDIC management (Chart 5.1). Of the total,

Chart 5.1 FUNDS OF BANKS UNDER R&L
Amounts in Million Pesos



	1993	1994	1995	1996	1997
Special Savings Deposit Accounts	1,209.64	–	10.43	19.95	–
Time Deposit	136.10	107.53	–	–	–
Treasury Bills	1,108.67	2,243.50	280.73	19.45	63.76
Fixed Rate Treasury Notes/Bonds	–	–	2,991.12	3,808.66	4,173.70
Dollar Time Deposit	–	817.73	1,106.45	1,165.26	1,601.93
PAR Bonds	–	30.50	31.25	32.18	50.62
TOTAL	**2,454.42**	**3,199.26**	**4,419.98**	**5,045.49**	**5,890.00**

P4.24 billion or 72.0% were in peso-denominated government securities, P50.62 million or 0.8% in Philippine Collateralized Interest Reduction Bonds or PAR bonds, and P1.60 billion or 27.2% were in dollar time deposits.

Distribution of Assets

PDIC initiates a partial distribution of liquidating dividends to creditors of a closed bank or termination of liquidation proceedings upon determining that substantial efforts have been exerted to convert the assets of a closed bank into money and/or continuation of the management of the affairs of the bank will result in material diminution of the recoveries already made. While these conditions have been met in a number of banks, there were only two partial distribution plans (for RB Don Carlos in Bukidnon, closed in 1981 and RB Ipil in Zamboanga del Sur, closed in 1989) completed during the year due to unresolved legal issues involving classification and preference of credits; application of Supreme Court ruling that interest shall no longer accrue after bank closure; and treatment of trust accounts and foreign currency-denominated liabilities.

The partial distribution plans submitted in 1995 for Island Savings Bank (closed in 1968), RB Obando (closed in 1973) and RB San Pedro (closed in 1985) were approved during the year by their respective Liquidation Courts. As of yearend 1997, partial liquidating dividends have been paid to 43 creditors of Island Savings Bank and two creditors of RB San Pedro amounting to P4.24 million and P9.82 million, respectively. The termination plan for RB Obando submitted in 1995 was also approved by the Liquidation Court during the year. Under the termination plan, the funds and all the unconverted assets of the bank shall be distributed to the creditors. The plan however has not yet been implemented since the major creditors of the bank prefer to be paid in cash instead of assignment of unconverted assets. Meanwhile, the partial distribution plan for Banco Primero Development Bank (BPDB) approved by the Liquidation Court in 1996 was partially implemented during the year for the depositors and taxes in view of the opposition filed with the Liquidation Court by a major creditor, Asset Privatization Trust (APT). The APT is asserting preferential status for its claim with BPDB which was denied by the Liquidation Court.

Payment of labor claims of employees against Pacific Bank amounting to P20.77 million involving 1,195 accounts has been authorized by the Liquidation Court. Of the total, P19.80 million representing 1,114 accounts have been paid as of yearend 1997.

Purchase and Assumption of Closed Banks

In view of the tedious liquidation process, PDIC is open to various ways of accelerating the termination of this process, including the purchase of assets and assumption of liabilities of closed banks. This may even include recommendations for a new bank license from the Monetary Board if this will enable full payment of liabilities to creditors and if proposal is found to be viable. This will also involve approval of the Liquidation Court.

In this regard, the PDIC Board has approved proposals for the acquisition of assets and assumption of liabilities of two banks, namely: Intercity Savings and Loan Bank (ISLB) closed in 1985 and RB Katipunan closed in 1984, subject to additional condition of reimbursing carrying cost on subrogated deposits. These proposals were submitted to the Liquidation Court for approval.

With the acquisition of ISLB by the Imperial Homes Corporation, PDIC will recover its subrogated claims for insured deposits paid in the amount of P21.87 million plus partial interests on deposits for the period. The liquid assets amounting to P123.83 million exceed the total liabilities of P84.61 million. The difference will be applied against forbearance of interests on claims after all the liabilities have been fully and completely settled by the investor.

PDIC expects to recover P1.99 million worth of subrogated deposits plus 10% carrying cost and interest with the approval of the Liquidation Court of the proposal on the acquisition of RB Katipunan by the Filipino Savers Bank in December 1997. The realizable value of the assets of RB Katipunan, including liquid assets, is estimated at P3.79 million, deficient by P3.10 million to cover the liabilities amounting to P6.90 million.

Payments to the Bureau of Internal Revenue

The Liquidation Court authorized during the year the payment to the Bureau of Internal Revenue (BIR) of P193.92 million representing the liabilities of Pacific Bank, under Civil Case No. CA-GR.CV No. 56205 entitled CBP vs. BIR-Central Bank of the Philippines vs. Bureau of Internal Revenue, for percentage taxes and deficiency expanded withholding taxes. The BIR assessment for deficiency income taxes under the same civil case involving a total amount of P213.24 million is still under protest.

The obligations to BIR for unremitted tax collections as of bank closure were fully paid during the year for Banco Primero Development Bank, Pioneer Savings and Loan Bank and Development Bank of Rizal from the funds of the respective banks. Those of First Ideal Savings and Loan Bank and Industrial Savings and Loan Association were only partially paid because of limited funds. These unremitted tax collections are trust obligations of the closed banks and therefore no prior approval from the Liquidation Court for remittance to BIR is required. Full payments for the first three banks amounted to P198.08 million including the interest as of dates of closure, computed at the rate prescribed in the tax code of BIR of 20% per annum. Partial payments for the other two banks amounted to P68.0 million representing 58.7% of the banks' total unremitted tax collections and interest as of closure.

Legal Affairs

The Legal Affairs Sector (LAS) of the Corporation is tasked with providing legal assistance in the form of proposed legislations, advice, legal research and review, litigation, and investigation.

During the year, LAS worked closely with the Corporation's Office of the President, Insurance and Examination, and Claims, Receivership and Liquidation sectors in drafting comments on and counter-proposals to bills filed in the Senate and House of Representatives to amend the General Banking Act. The comments and counter-proposals sought to 1) emphasize the fiduciary nature of banking which requires high standards of integrity and performance; 2) support the policy of the State to ensure safe and sound banking practices as protection to depositors; 3) maintain a stable and efficient banking and financial system that is globally competitive, dynamic and responsive to the demands of a growing economy; and 4) to incorporate therein the Basle Accord's Core Principles for Effective Banking Supervision. The Core Principles cover preconditions for effective bank supervision including arrangements for sharing information among supervisors and protecting the confidentiality of such information, licensing and structure of banks, prudential regulations and requirements (including DOSRI loans, policies and procedures for managing and controlling risks, internal controls), methods of ongoing bank supervision, and disclosure and information requirements.

A significant legal opinion rendered in 1997 was the treatment of funds collected by banks intended for remittance to government institutions such as taxes, SSS and Pag-ibig contributions and other similar funds. LAS advised that the relationship that exists between the collecting bank and the concerned government agency is essentially one of agent and principal, and as such, collectible funds that come into the hands of the former take on the nature of funds held in trust. Another opinion rendered was on recurring issues regarding the validity of unrecorded or unbooked deposits. Advice was given that every dispute as to deposit balance is liable to become a justiciable issue that can only be resolved by the courts, and that unless and until it can positively and unequivocally be proven through documents in PDIC's possession that a particular entry is not supported by an actual deposit of funds or such other similar valuable consideration, the legal presumption will tend to work in favor of the depositor. On the matter of service to banks of notices issued in the course of PDIC's performance of its legislated functions, advice was given that service shall be considered valid as long as it is made to a representative of a bank so integrated as to make it supposable that he will realize his responsibilities with regard to the legal papers served on him.

Litigation cases handled during the year include 18 petitions for judicial assistance in the liquidation of closed banks, collection and recovery actions for/or against closed banks under PDIC receivership/ liquidation, and bank fraud cases in collaboration with the Office of the State Prosecutor. As of yearend, favorable decisions involving litigated cases of banks under receivership and liquidation accounted for a total monetary award of P5.33 million, excluding the value of properties involved in the aggregate amount of P372.89 million. Recoveries from compromised cases amounted to P20.40 million. Further, three partial distribution plans were approved by the concerned liquidation courts to wit—Island Savings Bank with surplus assets in the total amount of P6.36 million; Rural Bank of San Pedro (Laguna), Inc., whose net funds available for distribution amounted to P9.68 million; and Rural Bank of Obando (Bulacan), Inc., where payment of receivership/ liquidation expenses and fees aggregating to P520,394.85 was allowed. Likewise, during the year, the LAS defended the Corporation in cases filed by shareholders/ directors in the Regional Trial Courts assailing the validity of the Monetary Board resolutions ordering the closure of Rural Banks of Capiz, Pontevedra, Maayon, Bobon and Tayasan.

Such cases were either ordered dismissed and/or denied. Negotiations and drafting of documents relative to an escrow agreement with two local branches of foreign banks that had contested the assessment of deposit premiums were also done during the year. These negotiations led to the amendment of the PDIC Regulatory Issuance No. 92-1 allowing the Corporation to accept cash or securities of the Republic of the Philippines, as security in cases of disputed deposit insurance assessments.

Investigations of deposit claims with aggregate value of P22.61 million have resulted in payments of some P13.19 million of insured deposits, the denial of deposit claims amounting to P4.94 million found to be spurious, and the deferment of payment of some P4.49 million worth of deposit claims due to non-submission of pertinent supporting documents by the claimants.

Information Technology

Consistent with the policy of adopting a user-friendly computing environment which started in 1995, and in keeping pace with technology changes, the Corporation continued to acquire new computer hardware and software. The need for users to share information and resources required the installation of additional network equipment and cabling. In addition to accommodation of more users, faster access to information systems and data was achieved. Two applications requiring network connections, the Legal Opinions Database and the transmission of fax messages using the electronic mail system, were implemented.

For better protection of PDIC data and in keeping with the computer industry practice of storing backup data at a separate location, backup tapes and other media were physically stored on a weekly basis at a neighboring government bank.

Client Services and Information

The implementation of information dissemination as an integral part of the takeover (TO) and claims settlement operations (CSO) was intensified in 1997, with information dissemination focused towards better understanding of depositors' rights and the takeover and claims settlement processes.

During the year, intensified education and information campaign was undertaken in eight rural banks during takeover operations, and in ten rural banks during claims settlement operations. Information dissemination was conducted through the establishment of linkages with local radio and television stations and newspapers which granted free airtime and space for public service announcements, parish churches, local government units (LGUs) and barangays, regional offices of Phil. Information Agency, schools, and universities. Posters and banners announcing the closures of banks and the payoff operations were placed in strategic locations, supplementing free radio and paid newspaper announcements. Air radio interviews with Deputy Receivers/Claim Agents were facilitated informing depositors of PDIC procedures and requirements in TO/CSO processes.

Local radio stations which assisted PDIC in rendering public service during TOs and CSOs were DYSM in Samar, DZJC and DZVR in Ilocos Norte, DWRS, DZVV, DZNS, DWVN, and DZXE in Ilocos Sur, DYSM and Bombo Radyo in Iloilo, DWAR, DZKI and DZAL in Camarines Sur, DZRH, DZRY, DZMM, DZSO, DZNL, DZLU and DWAA in La Union, and DXPR in Zamboanga. TV stations which assisted the Corporation are Eagle Cable TV in Ilocos Sur and Country Cable TV Network in Zamboanga del Sur. Local newspapers which covered PDIC are Weekly Ilocos Times, North Tribune and Norluzonian Courier in La Union, Pagadian Times, Pagadian Express and Pagadian City Star in Zamboanga del Sur, and Candon News and Ilocandia Star in Ilocos Sur.

The Corporation continues to assist depositors and borrowers of operating and closed banks through the Depositors Assistance Bureau (DAB). A total of 107 cases were received by the DAB in 1997, of which 40% were ATM related, 38% were complaints on unserviced withdrawals with distressed banks, and 23% were inquiries on deposit insurance and other PDIC-related services. In the case of unserviced withdrawals of RB Sto. Domingo and RB Bantay in Ilocos Sur, depositors who lodged their complaints with DAB were advised to execute affidavits of waivers under the Law on Secrecy of Bank Deposits. This led to the examination of individual deposit records of RB Bantay by the Corporation. Presettlement examination and pay-off operations were expedited when the bank was eventually ordered closed by the Monetary Board.

The Corporation also continued the publication and distribution of information materials on deposit insurance and other topics needed to educate depositors and the public. A new Information Series on Practical Guidelines in Choosing a Bank was published in 1997 to help depositors understand the important factors to be considered when planning or deciding to save money in a bank. Such information series was included in a special feature of a national newspaper.

Human Resource and Administrative Services

The Corporation continually recruits and hires qualified and competent personnel to perform its mandate effectively. A cadre of professional, well-trained and dedicated officers and employees is being maintained and motivated to effectively implement the task of examining banks, assisting distressed banks and liquidating closed banks.

By yearend, manpower complement reached 656 (106 officers and 550 rank-and-file employees), 7.2% higher than last year's 612. The Corporation continues to pursue intensified manpower recruitment and retention strategies to bring itself closer to its optimal goal of 1,000 personnel.

Equally important to PDIC is the continuing improvement of its existing structure. A strong but streamlined and rationalized organizational structure manned by competent staff has become imperative for the Corporation to assume greater responsibilities and challenges. In the last quarter of 1997, PDIC began its corporate restructuring plan. An Ad Hoc Committee on Restructuring was created to plan and coordinate the work. In consultation with the Department of Budget and Management (DBM), the Committee was advised not to exceed the total number of authorized plantilla positions and budget. However, positions can be shifted from one Center/Group/Sector to another and retitled. As of yearend, the basic structure of the proposed organization was determined and specific sectors/units identified.

Supporting PDIC's restructuring and capability enhancement is a technical assistance (TA) grant secured from the Asian Development Bank (ADB). Specifically, the ADB TA focuses on restructuring the organization, improving staff skills in bank supervision and risk management, developing research capability in support of policy formulation, and operations, and enhancing management information systems and legal framework.

To equip employees with the knowledge and skills necessary to carry out their duties and responsibilities, 28 in-house training programs were conducted which benefited 530 participants (Table 6.1). These included technical courses conducted by the PDIC Training Institute, e.g., Basic Banking Operations Course, Bank Accounting Course, Financial Analysis Course, and Receivership and Liquidation Course, as well as computer training programs given to keep the personnel abreast of computer systems and technology.

A total of 59 local off-house training/seminars were attended by 121 employees, while eight employees were granted opportunity to attend various training/scholarship grants abroad. These include the National Economic and Development Authority grants, SEACEN Course on Bank Examination and Supervision, and a Masteral Course in Development Economics at Williams College in Boston.

Under the Local Scholarship Program (LSP) of the Civil Service Commission (CSC), four employees were extended approval for official study leave of one year with pay. Three are pursuing Master of Science in Information Technology at the Ateneo Graduate School, while one is enrolled under the Master of Public Administration program at the University of the Philippines.

Table 6.1 TRAINING AND SEMINARS CONDUCTED/ ATTENDED, 1996-1997

TRAINING/SEMINAR	FREQUENCY		NUMBER OF PARTICIPANTS	
	1996	1997	1996	1997
PDIC-SPONSORED COURSES	36	28	781	530
Foundation Course	2	2	89	87
Basic Banking Operations Course	2	2	76	67
Bank Accounting	2	2	72	58
Financial Analysis	–	1	–	39
Bank Examination	–	–	–	–
Claims Course	1	0	35	–
Property Management	–	–	–	–
R&L Course	–	1	–	35
Signature Verification	1	–	33	–
Effective Business Writing	1	–	35	–
Effective Writing for Executives	–	–	–	–
Basic Supervisory Development	1	–	15	–
Team Building	1	–	18	–
Fire Drill	1	–	105	–
Visual Basic	1	–	10	–
Computer Systems Audit	–	1	–	32
Power Builder and Windows NT 4.0 Seminar	–	1	–	9
Windows 95	9	6	89	64
MS Word	8	7	119	81
MS Excel	6	5	85	58
COURSES OFFERED BY EXTERNAL AGENCIES				
LOCAL	64	59	116	121
FOREIGN	3	6	4	8
SEACEN Course on Bank Supervision	1	2	2	4
Introduction to Micro-Finance	–	1	–	1
International Certificate Course In Property Valuation	–	1	–	1
Masters of Arts in Development Economics	–	1	–	1
Information Processing Personnel (Senior Systems Analyst/Designer (B))	–	1	–	1
4th FIET World Bank Conference & FIET World Insurance Conference	1	–	1	–
Asia-Pacific Financial Law Summit	1	–	1	–
GRAND TOTAL	103	93	901	659

To ensure safety and security of personnel and property in the workplace, a Disaster Control Manual was completed to serve as guide in the event of fire, typhoon, earthquake, flood, explosion and other similar emergency situations.

Internal Audit

The Management Control Office of the Corporation continues to pursue its mandate to inform management of the attainment of corporate goals through quality service and efficient and controlled operations.

During the year, comprehensive Operations Quality Reviews on 27 operating and support units were conducted, apart from routine inspection of cash, securities and premises. Control verification activities on 11 closed banks were also performed, and 14 special audits initiated on selected areas.

Strengthening control over accountabilities particularly in the Receivership and Liquidation (R&L) area was highlighted during the year. In this regard, policies and procedures governing R&L need to be more comprehensive and institutionalized thereafter. In the examination function, a need for more qualified examiners in order to cover more banks and ensure timely submission of examination reports was reiterated. Likewise, difficulty in imposing penalties on erring banks surfaced. On computerized systems, the MCO instigated a review of the automated systems for vulnerability to the "millennium bug" and this has resulted to the ongoing modification work in some systems.

Recognizing the importance of the work of the Commission on Audit (COA), coordination with said office not only heightened consciousness for proper accountability but also enabled a better understanding by both the COA and the Corporation of each other's decisions and practices.

FINANCIAL OPERATIONS

Financial Resource Management

To maximize income, daily working balance was consistently kept within the P400,000 limit. Liquidity was reinforced by renewing and increasing the Domestic Bills Purchase Line (DBPL) with the Land Bank of the Philippines (LBP) to P1.5 billion from P1 billion in 1996. The DBPL enables the immediate encashment of checks received by PDIC and deposited to LBP, foregoing the three-day clearing period. As additional layer of liquidity, PDIC also renewed the stand-by facility of P10 million short-term loan line with LBP to bridge finance payment of claims for insured deposits pending maturity of placements in government securities.

During the year, PDIC enrolled in the Registry of Scripless Securities (RoSS) with the Bureau of Treasury to facilitate transactions for both PDIC and banks under receivership/liquidation accounts in government securities. The RoSS is an electronic encoding and ownership tracking and/or transfer of uncertificated government securities from the time of issue to maturity. This system eliminates the risks and costs of handling and transporting securities.

Through prudent liquidity management and good funds programming, the Corporation was able to invest more funds in longer-tenor and higher-yielding government securities that earn semi-annual interests. Corporate investments increased to P13.51 billion from P9.90 billion in 1996, 90.8% of which is in long-term treasury notes/ bonds and Philippine Collateralized Interest Reduction Bonds or PAR Bonds, and 9.2% in treasury bills and dollar time deposits with maturities of one year or less. The collections from the semi-annual interest and short-term maturities cover the funding requirements not only for operational needs but also for large liquidity requirements such as obligations arising from claims for insured deposits.

Income from investments, net of tax, increased by P310.98 million or 28.1% from P1.11 billion in 1996 to P1.42 billion in 1997. Final tax on income on investments was recorded at P438.17 million. Return on peso investments in 1997 was estimated at 12.3%, net of tax, compared to 12.1% in 1996, while return on dollar placements in time deposit was at 6.4% compared to 6.3% in 1996.

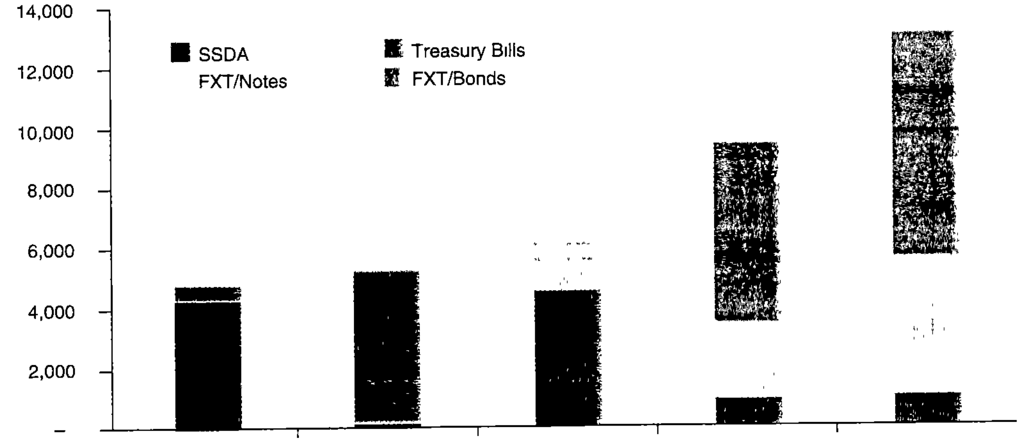
Until 1993, PDIC invested its funds in short-term instruments to meet liquidity requirements that may arise from claims for insured deposits in case of any bank failure (Chart 7.1). Early that year, the bulk of PDIC investments were in 91-day treasury bills (T/Bills) at 8.41%. Towards the end of the year, investments were shifted to Special Savings Deposit Accounts (SSDA) to take advantage of the high rates being offered by the secondary markets. Rates for SSDA went up to as high as 20.50% for 91 days compared to 16.35% for T/Bills of the same tenor.

In 1994, a review of the liquidity requirements was undertaken, coupled with the evaluation of alternative ways to meet sudden liquidity needs. With the downward trend of SSDA rates in 1994 reaching a low of 8.55% for 91 days from a high of 16.35% in 1993, PDIC locked in its investments in one year T/Bills at yield rate of 15.13%, comprising 89.4% of the total portfolio by end of 1994.

The maiden issue of the 5-year Fixed Rate Treasury Notes (FXT/Notes) was launched on 22 June 1995 which bear coupon rate of 15.88%. Initially, the Corporation acquired P483.42 million of this issue. At yearend, total acquisition amounted to P2.02 billion at a weighted average interest rate (WAIR) of 14.83% compared to 14.77% for 364-day T/Bills. Total investment portfolio by end of 1995 was composed of 69.6% in T/Bills and 30.4% in 5-year FXT/Notes.

Chart 7.1 PDIC PESO INVESTMENTS, 1993-1997

Amounts in Million Pesos



	1993		1994		1995		1996		1997	
	Amount	% Dist'n	Amount	% Dist'n	Amount	% Dist'n	Amount	% Dist'n	Amount	% Dist'n
SSDA	4,307	91.50%	2	0.04%	-		-		-	
<90-day Treasury Bills	-		-		2	0 03%	-		-	
91-day Treasury Bills	396	8 41%	23	0 48%	-		-		-	
182-day Treasury Bills	-		484	10.08%	-		-		4	0 03%
364-day Treasury Bills	4	0 08%	4,292	89 40%	4,637	69 60%	882	9.15%	1,016	7 77%
2-Yr FXT/Notes	-		-		-		12	0 12%	626	4 79%
5-Yr FXT/Notes	-		-		2,023	30.37%	2,890	29.99%	4,078	31 19%
7-Yr FXT/Bonds	-		-		-		5,569	57 80%	5,621	42.98%
10-Yr. FXT/Bonds	-		-		-		282	2 93%	1,517	11.60%
20-Yr FX/Bonds									214	1.64%
TOTAL	**4,707**	**100.00%**	**4,801**	**100.00%**	**6,662**	**100.00%**	**9,635**	**100.00%**	**13,076**	**100.00%**

In January and September 1996, the 7-year and 10-year FXT/Bonds were issued by the Bureau of Treasury, respectively. The coupon rates of the initial issues were at 15.50% for 7-year FXT/Bonds and 16.00% for the 10-year FXT/Bonds. As shown in the graph, more than half (57.8%) of the total portfolio investments by year-end 1996 was in 7-year FXT/Bonds at WAIR of 15.47%; the remaining 42.2% is composed of the following: 5-Year FXT/Notes – 30.0% at WAIR of 15.06%; 364-day T/Bills – 9.2% at WAIR of 14.08%; 10-year FXT/Bonds – 2.9% at WAIR of 16.00% and 2-year FXT/Notes – 0.1% at WAIR of 14.25%.

In 1997, T/Bill rates were steady in the first semester, ranging from 9.45% to 11.25% for the benchmark 91 days, and 10.35% to 12.45% for the 364 days. The upward trend in T/Bill rates began in the second half of 1997 with an increase of 130 basis points from the previous auction. This is caused by the depreciation of the peso from P26.40 to P28.00 as triggered by the regional currency crisis, coupled with the surge of interbank rates, from 26.50% to 36.50%. Rates for the last quarter of the year remained high ranging from 17.05% to 20.75% for one year and 15.50% to 18.50% for 91 days. Exchange rate climbed to P40.12 to the dollar by the end of the year.

There were two offerings for 5-year FXT/Notes and 7-year FXT/Bonds and three for 10-year FXT/Bonds. The 20-year FXT/Bonds were offered on April 22 marking the centennial celebration of Department of Finance. Cash Management Bills with tenors of 35 days and 42 days were introduced on July 22 with an initial offering of P6 billion. Rates for the latter type of securities follow that of the T/Bills.

PDIC invested the bulk of its assessment premiums received in January 1997 in 10-year FXT/Bonds and 5-year FXT/Notes, both issued in 1996, at 16.00% and 14.50%, respectively. It also invested in 20-year FXT/Bonds upon issuance in April at 14.38% nominal rate. In July, PDIC shifted its investment from long term T/Bonds to T/Bills to avail of the high rates of interest for short-term government securities ranging from 15.40% to 20.75% for one year tenor, even reaching 40.00% in September.

The Corporation shifted back to FXT/Notes/Bonds during the last quarter when rates for 2-year tenor jumped to 19.50% and nominal rates for new issues of 7-year and 10-year FXT/Bonds soared to 20.88% and 22.88%, respectively.

Results of Operations

Gross income for 1997 aggregated P4.32 billion, 24.8% higher than the previous year's P3.46 billion, and almost tripling over a five-year period. Assessment premium, the main source of revenue of the Corporation, rose by 29.0% from year-ago level and more than twice the level in 1993. The increase was brought about by the growth in the level of deposits in the banking system upon which premium assessment on member banks is based (see Note 1b of the Notes to Financial Statements). Income from investments, another major contributor to the Corporation's revenue, posted 28.1% increment over last year and 209.8% higher than the amount realized five years ago. Indicative of efficient handling of investible funds, return on peso investments slightly improved to 12.3% from last year's 12.1%, while return on dollar placements at 6.4% was higher than 6.3% in 1996. Income from financial assistance granted to banks registered minimal growth of P16.40 million or 15.3%. Assessment income and income from investments combined accounted for 93.6% of the gross income. The remaining 6.4% was derived from sale of fixed assets, foreign currency revaluation, interest and penalties on late payment of assessments and other miscellaneous income.

Total expense for the year totaled P4.30 billion or an increase of 25.0% from last year's P3.44 billion, and 173.0% higher than the 1993 level. Operating expenses grew by P42.8 million or 12.3%, mainly due to the effect of the salary increase authorized under the Salary Standardization Law II. Cost of bank rehabilitation, used for the first time in the Corporation's bank failure resolution actions, amounted to P345.67 million, P325.0 million of which represents the Corporation's share in the rehabilitation of Monte de Piedad and Savings Bank. The other P20.67 million pertains to the 20% additional discount on the face value of assets repurchased by Westmont Bank as provided under the loan agreement relative to the financial assistance extended to the bank. Provision for insurance losses, representing amount of reserves set aside annually to cover for insured deposit claims that may arise from bank closures and potential losses from closed banks, amounted to P3.56 billion in 1997. This is 15.2% higher than last year's level and about 82.8% of the total expense in 1997. The provision for insurance losses was computed based on the methodology for estimation of insurance losses developed in 1996 and enhanced during the year (see Note 1f of the Notes to Financial Statements).

Net income for the year was recorded at P25.52 million, P1.08 million higher than in 1996 and almost P16.70 million more than the level five years ago. Of the total, 50% or P12.76 million will be remitted to the National Government in 1998 as dividend.

Financial Position

Total assets of the Corporation as of yearend 1997 stood at P18.44 billion, P4.75 billion higher than the 1996 level, and P10.75 billion more than the 1993 level. Expansion of assets was funded by income and borrowings from the BSP. About 98.5% of these assets are in financial forms such as cash, investments and receivables. Peso and dollar denominated investments, with both short and long-term maturities, accounted for the largest increase in assets at P3.62 billion or 76.1% of the net increase in total assets. As of yearend 1997, total investments stood at P13.51 billion, 36.5% higher than last year's P9.90 billion. Consistent with the tight liquidity management policy of the Corporation to maximize yield, 90.8% of the funds were placed in longer-term and higher-yielding government securities that earn semi-annual interests. The rest (9.2%) were invested in government securities with maturities of one year or less. The collections from the semi-annual interest and short-term maturities are the major sources of funds for operational requirements.

Financial assistance to banks increased by 49.8% to P3.14 billion, mainly due to the P1.175 billion share of the BSP in the rehabilitation assistance granted to Monte de Piedad and Savings Bank coursed through PDIC in the form of a loan. Repayments from three banks (Westmont, Veterans, Insular) extended financial assistance in the early part of 1990s totaled P129.45 million. Net subrogated claims receivable, or claims of PDIC against the closed banks arising from payment of insured deposits less recoveries, grew slightly by 3.1% to P930.84 million as of yearend 1997.

Liabilities as of yearend 1997 including the P1.175 billion loan from BSP totaled P15.21 billion, 45.4% higher than last year's level. About 80% of total liabilities are estimated insurance losses, which rose by P3.52 billion or 41.1% from previous year's P8.57 billion. The level of estimated insurance losses is determined on an annual basis and reflects the best estimate of potential losses from risks of bank closures and losses from existing closed banks, taking into account the time value of money.

Retained earnings grew by P0.86 million, increasing the deposit insurance fund as of yearend 1997 to P3.23 billion.

COMPARATIVE STATEMENTS OF CONDITION

(In Thousand Pesos)

	1993	1994	1995	1996	1997	Increase (Decrease) 96-97 Amount	%
ASSETS							
Current Assets							
Cash on Hand and in Banks (Note 2)	2,750	4,516	10,794	49,488	107,180	57,692	116.6%
Short Term Investments (Note 3)	4,814,303	4,911,231	4,748,875	1,013,119	1,249,840	236,721	23 4%
Interest Receivable from Investments	11,772	431,804	573,856	455,426	417,290	(38,136)	-8 4%
Other Current Assets (Note 4)	80,997	81,372	87,928	27,853	72,120	44,267	158.9%
Total Current Assets	4,909,822	5,428,923	5,421,453	1,545,886	1,846,430	300,544	19.4%
Long Term Investments (Note 5)							
Government Securities - Treasury Bonds (Dollar)	0	102,895	128,266	132,271	207,574	75,303	56.9%
Government Securities - Treasury Bonds (Peso)	0	0	2,023,031	8,752,839	12,055,924	3,303,085	37.7%
Total Long Term Investments	0	102,895	2,151,297	8,885,110	12,263,498	3,378,388	38.0%
Financial Assistance to Banks (Note 6)	1,239,374	1,731,373	1,812,833	2,098,902	3,144,984	1,046,082	49.8%
Subrogated Claims Receivable (Note 7)	2,982,012	3,014,393	3,077,753	3,136,470	3,203,433	66,963	2.1%
Less: Allowance for Losses on Subrogated Claims Receivable	1,491,006	1,507,197	1,538,877	1,904,356	1,943,005	38,649	2.0%
Subrogated Claims Receivable - Assigned	179,705	210,692	250,736	329,050	329,583	533	0 2%
Net Subrogated Claims Receivable	1,311,301	1,296,504	1,288,140	903,064	930,845	27,781	3.1%
Fixed Assets (Note 8)	192,427	178,740	175,967	173,863	168,417	(5,446)	-3.1%
Other Assets (Note 9)	33,963	82,648	76,286	79,825	85,547	5,722	7.2%
TOTAL ASSETS	7,686,887	8,821,083	10,925,977	13,686,650	18,439,721	4,753,071	34.7%

LIABILITIES, DEPOSIT INSURANCE FUND AND CONTINGENT SURPLUS

	1993	1994	1995	1996	1997	Amount	%
LIABILITIES							
Current Liabilities (Note 10)	946,613	349,226	203,105	212,473	265,073	52,600	24.8%
Long Term Liabilities (Note 11)	2,525,000	1,521,000	1,671,000	1,671,000	2,846,000	1,175,000	70.3%
Estimated Insurance Losses (Refer to Note 1)	2,066,459	3,786,206	5,848,173	8,571,873	12,092,490	3,520,617	41 1%
Other Liabilities (Note 12)	517	250	69	3,298	7,682	4,384	132.9%
TOTAL LIABILITIES	5,538,589	5,656,683	7,722,347	10,458,644	15,211,245	4,752,601	45.4%
DEPOSIT INSURANCE FUND							
Permanent Insurance Fund (Note 13)	2,022,212	3,000.000	3,000,000	3,000,000	3,000,000	0	0 0%
Retained Earnings	125,037	163,329	202,621	226,997	227,861	864	0 4%
TOTAL DEPOSIT INSURANCE FUND	2,147,249	3,163,329	3,202,621	3,226,997	3,227,861	864	0.0%
CONTINGENT SURPLUS	1,049	1,072	1,009	1,009	615	(394)	-39.0%
TOTAL LIABILITIES, DEPOSIT INSURANCE FUND AND CONTINGENT SURPLUS	7,686,887	8,821,083	10,925,977	13,686,650	18.439.721	4,753,071	34.7%

COMPARATIVE STATEMENTS OF INCOME AND EXPENSE

(In Thousand Pesos)

	1993	1994	1995	1996	1997	Increase (Decrease) 96-97 Amount	%
ASSESSMENT INCOME (Note 14)	**1,000,456**	**1,264,846**	**1,601,650**	**2,037,168**	**2,627,417**	**590,249**	**29.0%**
Less: EXPENSES							
Provision for Insurance Losses	1,189,536	1,735,938	2,094,713	3,089,179	**3,559,266**	470,087	15.2%
Cost of Bank Rehabilitation (Note 15)	0	0		0	**345,667**	345,667	0.0%
Operating Expenses	384,094	255,706	345,910	348,819	**391,592**	42,773	12.3%
TOTAL EXPENSES	**1,573,630**	**1,991,644**	**2,440,624**	**3,437,998**	**4,296,525**	**858,527**	**25.0%**
Net Assessment Loss	**(573,174)**	**(726,797)**	**(838,973)**	**(1,400,830)**	**(1,669,108)**	**(268,278)**	**19.2%**
INCOME FROM INVESTMENTS (net of tax)							
Treasury Notes/Bonds (Peso)	0	0	107,126	823,652	**1,304,820**	481,168	58.4%
Treasury Bills	369,195	458,207	618,591	257,524	**76,079**	(181,445)	-70.5%
Treasury Bonds (Dollar)	0	907	14,947	17,100	**17,108**	8	0.0%
Time Deposit	4,541	6,944	5,649	7,393	**8,823**	1,430	19.3%
Regular and Special Savings Deposit	79,118	162,638	531	281	**1,309**	1,028	366.0%
Gain on Sale of Investments	4,525	565	4,334	0	**8,788**	8,788	0.0%
TOTAL INCOME FROM INVESTMENTS (net of tax)	457,379	629,262	751,179	1,105,950	**1,416,927**	310,977	28.1%
INCOME FROM FINANCIAL ASSISTANCE	121,545	108,418	99,161	106,990	**123,386**	16,396	15.3%
GAIN ON SALE OF FIXED ASSETS	0	0	0	212,909	**31**	(212,878)	-100.0%
OTHER INCOME (Note 16)	3,079	2,690	3,871	2,662	**2,348**	(314)	-11.8%
	582,003	**740,370**	**854,211**	**1,428,511**	**1,542,692**	**114,181**	**8.0%**
Net Income (Loss) Before Foreign Currency Revaluation	**8,829**	**13,573**	**15,238**	**27,681**	**(126,416)**	**(154,097)**	**-556.7%**
Gain (Loss) in Foreign Currency Revaluation	0	(3,485)	7,472	(3,239)	**151,940**	155,179	-4791.0%
NET INCOME	**8,829**	**10,088**	**22,710**	**24,442**	**25,524**	**1,082**	**4.4%**

Note: Prior years' presentation was adjusted for comparison.

COMPARATIVE STATEMENTS OF CASH FLOWS

(In Thousand Pesos)

	1993	1994	1995	1996	1997	Increase (Decrease) 96-97 Amount	%
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from member banks for assessment	999,906	1,264,025	1,601,530	2,036,665	**2,627,144**	590,479	28.99%
Income from savings deposits	327	871	709	339	**1,638**	1,299	383.19%
Collections of interest on financial assistance	121,708	81,719	56,767	131,117	**105,946**	(25,171)	-19.20%
Income from investments	600,228	430,953	762,288	1,414,016	**1,725,500**	311,484	22.03%
Collections of various receivables	3, 439	2,170	1,299	1,796	**3,233**	1,437	80.01%
Collections from subrogated claims	3,725	1,660	4,045	8,084	**9,760**	1,676	20.73%
Miscellaneous income	838	631	653	2,731	**4,401**	1,670	61.15%
Various inflows	44,615	3,437	0	1,582	**0**	(1,582)	-100.00%
Expenses incurred for R/L of closed banks	(2,495)	(3,424)	(4,229)	(4,184)	**(5,237)**	(1,053)	25.17%
Payments to suppliers	(20,573)	(26,471)	(76,724)	(34,014)	**(59,014)**	(25,000)	73.50%
Payments to employees	(34,194)	(48,983)	(73,183)	(112,267)	**(157,673)**	(45,406)	40.44%
Remittances to BIR, HDMF, GSIS, etc.	(14,181)	(18,704)	(27,778)	(27,605)	**(35,470)**	(7,865)	28.49%
Final taxes and other prepaid expenses	(78,754)	(215,667)	(141,850)	(155,520)	**(210,024)**	(54,504)	35.05%
Payment of interest on BSP loans	(294,097)	(737,128)	(258,570)	(128,931)	**(128,576)**	355	-0.28%
Payment of insured deposits	(40,759)	(34,108)	(67,406)	(66,762)	**(76,692)**	(9,930)	14.87%
Various outflows	(5,136)	(3,517)	0	(15,804)	**(100,206)**	(84,402)	534.05%
Net Cash Provided by Operating Activities	**1,284,597**	**697,464**	**1,777,551**	**3,051,242**	**3,704,730**	**653,488**	**21.42%**
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from matured investments	18,806,677	11,530,168	6,933,479	5,784,236	**4,382,167**	(1,402,069)	-24.24%
Gain from sale of investments	4,227	565	4,334	0	**8,788**	8,788	
Collection of financial assistance granted to member banks	166,620	333,987	33,584	62,245	**129,451**	67,206	107 97%
Investments	(20,019,310)	(11,729,790)	(8,815,709)	(8,778,289)	**(7,977,013)**	801,276	-9 13%
Financial assistance granted to member banks	(5,000)	(825,000)	(75,000)	(270,000)	**(1,500,000)**	(1,230,000)	455.56%
Proceeds from sale of fixed assets	0	0	100	215,000	**31**	(214,969)	-99.99%
Capital expenditures	(46,960)	(8,001)	(2,287)	(10,757)	**(5,181)**	5,576	-51.84%
Net Cash Provided by Investing Activities	**(1,093,746)**	**(698,071)**	**(1,921,500)**	**(2,997,565)**	**(4,961,757)**	**(1,964,192)**	**65.53%**
CASH FLOWS FROM FINANCING ACTIVITIES							
Borrowings from BSP for financial assistance	0	0	150,000	0	**1,175,000**	1,175,000	
Payment of loans to CB-BOL/BSP	(225,000)	(25,213)	(1,000)	0	**0**	0	
Equity from the National Government	48,725	0	0	0	**0**	0	
Payment of dividend to National Government	0	(4,415)	(5,044)	(11,355)	**(12,221)**	(866)	7.63%
Prior period adjustment to retained earnings	(12,847)	35,484	(780)	(66)	**0**	66	-100.00%
Net Cash Provided by Financing Activities	**(189,122)**	**5,856**	**143,176**	**(11,421)**	**1,162,779**	**1,174,200**	**-10281.06%**
Effect of Foreign Currency Revaluation	**0**	**(3,485)**	**7,052**	**(3,562)**	**151,940**	**155,502**	**-4365.58%**
Net Increase in Cash	**1,729**	**1,765**	**6,278**	**38,694**	**57,692**	**18,998**	**49.10%**
Cash and Cash Equivalent at Beginning of Year	1,021	2,750	4,515	10,794	**49,488**	38,694	358 48%
Cash and Cash Equivalent at End of Year	2,750	4,515	10,794	49,488	**107,180**	57,692	116.58%
Net Increase in Cash	**1,729**	**1,765**	**6,278**	**38,694**	**57,692**	**18,998**	**49.10%**

Notes to Statement of Cash Flows:

a) Prior years' presentation was adjusted for comparison.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Basis for Recording*

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

b. *Assessment Premium*

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

c. *Financial Assistance*

The Corporation may grant financial assistance to a member bank for its rehabilitation to prevent closure provided such assistance is the least costly alternative. In applying this concept, the alternative chosen must not cost more than the insured deposits at the time of rehabilitation. The financial assistance may be in the form of loans, purchase of assets, assumption of liabilities or placement of deposits to the recipient bank.

d. *Investments*

Unutilized funds are invested in Treasury Bills, Notes and Bonds (both peso and dollar) and are recorded at cost. Income from these investments are accrued monthly over the term of the instrument. Final taxes paid upon placement are booked as Prepaid Taxes and amortized over the term of the placement.

e. *Dollar-Denominated Investments*

Dollar-denominated investments are carried at the value as at transaction date and revalued at the applicable exchange rate at yearend.

f. *Adequacy of Insurance Reserves*

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

f.1. A general provision called Estimated Insurance Losses intended to adequately cover anticipated losses from member banks identified to have great probabilities of closure where insurance payments may exceed recovery of assets during liquidation. Up to 1995, estimates of the amount of annual provision were based mainly on past recovery/loss rate on subrogated claims. This has been constantly enhanced that a new methodology of estimating insurance losses implemented in 1996 was again modified in 1997. The new methodology involves four basic steps: 1) assessment of risk of bank closures using as basis a watchlist which identifies and categorizes banks into degrees of probability of failure, 2) estimating the historical recovery/loss rates on subrogated claims, 3) application of rate of loss on live banks identified in step 1 as having probability of closure, and 4) checking the estimated level of reserves arrived at in the first step against a benchmark ratio of insurance reserves to total deposits. This is presented as a liability.

f.2. Provision for losses on Subrogated Claims Receivable (payments made by the Corporation on insurance claims) estimated using the average of the nominal and present value rates of losses on each type of closed bank. Time value of amount to be recovered is being factored in to reflect the diminished value of the collectible as a consequence of long liquidation process. This is presented as a reduction from the receivable. Following are the loss rates used:

	Nominal Rate	Present Value at 8%
Rural Banks	55%	84%
Thrift Banks	40%	85%
Commercial Banks	30%	75%

g. *Accumulated Assessment Losses*

Pursuant to Section 6(d) of R.A. 3591, As Amended, accumulated assessment losses (insurance assessment collected from banks minus a) operating costs and expenses of the Corporation; b) additions to reserves to provide for insurance losses; and c) insurance losses sustained plus losses from preceding years in excess of such reserves) shall be carried forward to be applied on assessments becoming due in subsequent years. As of end of 1997, accumulated assessment losses from 1978 to 1996 stood at P4.460 billion. For the year 1997, net assessment losses amounted to P1.123 billion. This amount plus P546 million of previous years' losses were absorbed against 1997 income from investments leaving the balance at P3.914 billion.

h. *Allowance for Uncollectible Accounts*

Expenses incurred by the Corporation in performing its receivership and liquidation function are recoverable from closed banks (booked as Accounts Receivable-Receivership and Liquidation). An allowance for probable losses on this account is booked computed at 70% of total receivable outstanding at yearend.

i. *Inventories*

Inventories of supplies and materials, decals and standees, postage stamps and documentary stamps are recorded at cost and maintained based on the first-in first-out (FIFO) method.

j. *Fixed Assets*

Fixed assets are carried at cost and depreciated using the straight-line method over the following estimated useful lives:

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

Starting April 1997, estimated useful life of furniture, fixtures, equipment and books was revised from 5 to 3 years.

k. *Employee Benefit Plan*

The Corporation has a contributory Provident Fund covering all employees. The fund is divided into provident fund and housing fund. Employee contributes 5% of basic salary to each fund while corporation puts in a total of 45%. Corporate contribution is vested to the employee after completing a year of service in the Corporation.

NOTE 2 - CASH ON HAND AND IN BANKS

This account includes the following:

	1996	1997
	(In Thousand Pesos)	
Cash on Hand	P 39,993	P 99,651
Cash in Bank-Principal Accounts	397	1,015
Cash in Bank-Settlement of Claims	3,572	1,726
Cash in Bank-Transferee Banks	5,515	4,781
Due from BSP	11	7
Total	**P 49,488**	**P 107,180**

The Cash on Hand balance includes Checks and Other Cash Items amounting to P99.65 million received after banking hours on the last working day of the year and deposited the following banking day. Cash in Bank-Principal Accounts refers to payroll and corporate operating funds. Cash in Bank-Settlement of Claims and Cash in Bank- Transferee Banks are funds used to service insured deposit claims of depositors of closed banks.

NOTE 3 - SHORT TERM INVESTMENTS

This account includes the following investments:

	1996	1997
	(In Thousand Pesos)	
Treasury Bills [a]	P 881,711	P 1,020,452
Dollar Time Deposit [b]	131,408	229,388
Total	**P1,013,119**	**P 1,249,840**

[a] Refers to government securities guaranteed as to principal by the Philippine government and being issued by the Republic of the Philippines through the Bureau of Treasury, with terms ranging from 91 to 364 days PDIC holdings range from 182 to 364 days with interest rates of 14.41% to 25%

[b] These are dollar placements in time deposit with terms ranging from 98 to 123 days and interest rates of 6.25% to 6.9375%

NOTE 4 - OTHER CURRENT ASSETS

This account includes the following :

	1996	1997
	(In Thousand Pesos)	
Accrued Interest on Financial Assistance	P 20,244	P 37,684
Prepaid Expenses	2,088	28,449
Inventory of Supplies and Materials	1,154	740
Accounts Receivable	452	4,605
Due from Officers and Employees	3,725	260
Others	190	382
Total	**P 27,853**	**P 72,120**

Interest rates on financial assistance to various banks range from 4% to 10%, and interests due are accrued monthly (please refer to Note 6). P 27.15 million or 95.5% of prepaid expenses refer to prepaid taxes on treasury bills.

NOTE 5 - LONG TERM INVESTMENTS

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

	1996	1997
	(In Thousand Pesos)	
Gov't Securities - Treasury Bonds (Dollar)	P 132,270	P 207,574
Gov't Securities - Treasury Bonds (Peso)	8,752,840	12,055,924
Total	**P8,885,110**	**P 12,263.498**

NOTE 6 - FINANCIAL ASSISTANCE TO BANKS

This account is composed of assistance to the following:

	1996	1997
	(in Thousand Pesos)	
Insular Savings Bank	P 240,000	P 208,000
Philippine Veterans Bank	59,852	39,901
Network Rural Bank of Southern Phil.	75,000	75,000
Westmont Bank	1,395,000	1,317,500
Monte de Piedad and Savings Bank	0	1,175,000
Non-interest bearing notes of various rural banks thru Land Bank (CFI Enhance Program)	329,050	329,583
Total	**P 2,098,902**	**P 3,144,984**

The Monte de Piedad and Savings Bank account is the share of BSP in the bank's rehabilitation coursed through PDIC in the form of loan. PDIC's share of P325 million was charged to operation (refer to Note 15).

NOTE 7 - SUBROGATED CLAIMS RECEIVABLE

This account refers to the claims of PDIC from closed banks arising from payment of insured deposits. On the other hand, the Subrogated Claims Receivable Assigned account represents the amount of subrogated claims assigned to BSP in exchange for notes receivable from banks that availed the Countryside Financial Institution Enhancement Program administered jointly by PDIC, Land Bank of the Philippines (LBP) and BSP. Receivable from LBP under Note 6 is due at the end of 7 years from the date of asset swap and collection thereon will be used to redeem the subrogated claims assigned to BSP.

	1996	1997
	(In Thousand Pesos)	
Total Subrogated Claims Receivable	P 3,307,881	P 3,384,523
Less: Recoveries	171,411	181,090
Subrogated Claims Receivable (net)	3,136,470	3,203,433
Less. Subrogated Claims Receivable		
Assigned	329,050	329,583
Allowance for Losses	1,904,356	1,943,005
Net	**P 903,064**	**P 930,845**

NOTE 8 - FIXED ASSETS

This account includes the following :

	1996	1997
	(In Thousand Pesos)	
Land	P 26,206	P 26,206
Building	146,763	146,763
Furniture, Fixtures, Equipment and Books	68,264	78,445
Total	**241,233**	**251,414**
Less. Allowance for Depreciation	67,370	82,997
Total Net Book Value	**P 173,863**	**P 168,417**

Depreciation expense for 1996 and 1997 amounted to P12.9 million and P16.3 million, respectively.

NOTE 9 - OTHER ASSETS

This account includes the following:

	1996	1997
	(In Thousand Pesos)	
Accounts Receivable.		
Financial Assistance to various banks which were subsequently closed [a]	P 158,084	P 158,084
Various Closed Banks - Receivership and Liquidation Expenses [b]	62,765	87,455
Provident Fund [c]	24,718	24,718
Other Banks - Assessment Deficiencies [d]	13,653	12,817
Sub-total	259,220	283,074
Others	4,174	3,325
Total	**P 263,394**	**P 286,399**
Less: Allowance for possible losses	183,569	200,852
Net	**P 79,825**	**P 85,547**

[a] These are financial assistance granted to various banks which failed to recover and eventually closed. A 100% allowance was provided because these banks do not have enough assets to pay their obligations

[b] These are expenses incurred by the Corporation in performing its mandate as receiver and liquidator of closed banks. An allowance of 70% of the outstanding balance is provided in view of the low recovery rate on closed banks (please refer to Note 1h)

[c] This represents seed money for the regular and housing fund (P11 million) and car fund (P13.7 million) .

[d] These are outstanding assessment deficiencies from Republic Planters Bank (P 14 million) and Citibank (P12.67 million).

NOTE 10 - CURRENT LIABILITIES

This account includes the following:

	1996	1997
	(In Thousand Pesos)	
Accrued Interest Payable to BSP	P 89,444	P 104,317
Accounts Payable - Various	43,470	64,818
Others	79,559	95,938
Total	**P 212,473**	**P 265,073**

The interest on loans payable to BSP is due every 2nd day of July to mature on 02 July 2013 (please refer to Note 11) while Accounts Payable-Various refers to the amount due to various suppliers/creditors. Classified under Others are: a) Due to officers and employees which pertain to provision for the expected implementation of proposed compensation package and other benefits (P49.25 million); b) Provision for Retirement (P33.93 million), and c) Dividends Payable to the National Government representing 50% of Net Income for the year (P12.76 million).

NOTE 11 - LONG TERM LIABILITIES

These include: (a) P1.521 billion 20-year loan from BSP at 8.5% maturing on 02 July 2013; proceeds of which were used to service insurance claims in the 1980s (P1.450 billion) and assistance to Philbank (P71 million); (b) a 3-year P150 million loan from BSP at 9.9% to mature on 15 October 1998 used to provide financial support in the merger of several rural banks; and (c) P1.175 billion share of BSP in Monte de Piedad's rehabilitation coursed through PDIC in the form of a loan.

NOTE 12 - OTHER LIABILITIES

This account includes the following:

	1996	1997
	(In Thousand Pesos)	
Deffered Assessment Income	P 77	P 302
Deferred Service Income	3,221	7,380
Total	**P 3,298**	**P 7,682**

The Deferred Assessment Income account refers to overpayment by banks of assessment premium creditable to subsequent assessment period while Deferred Service Income is not actually an income but reimbursement of part of salary and other benefits of PDIC officials supervising receivership and liquidation function temporarily booked as such pending actual collection. These are charged to closed banks (under Accounts Receivable - Receivership & Liquidation) and shall be reversed as a reduction to operating expense upon collection.

NOTE 13 - PERMANENT INSURANCE FUND

This is the total capital provided by the National Government by virtue of R.A. 3591, As Amended. The full capitalization was reached in 1994 with the conversion to equity of the National Government the P977.8 million obligation of PDIC to the then Central Bank of the Philippines.

NOTE 14 - ASSESSMENT INCOME

This represents deposit insurance premium collected from member banks (please refer to Note 1b). Assessment premium collected during the past two years were as follows:

	1996	1997
	(In Thousand Pesos)	
Commercial Banks	P 1,804,663	P 2,343,570
Thrift Banks	182,317	218,132
Rural Banks	50,188	65,715
Total	**P 2,037,168**	**P 2,627,417**

NOTE 15 - COST OF BANK REHABILITATION

P325.0 million of this refers to the share of PDIC in the cost of rehabilitating Monte de Piedad and Savings Bank as authorized under PDIC Board Resolution Nos. 97-05-033A and 97-05-033B dated 05 May 1997. The Board Resolutions implemented the Rehabilitation Plan for Monte de Piedad and Savings Bank executed by PDIC, BSP and Keppel Group of Singapore on 01 May 1997. The other P20.667 million represents additional 20% discount on the face value of assets repurchased by Westmont Bank as provided under the loan agreement relative to the PDIC financial assistance to that bank.

NOTE 16 - OTHER INCOME

Booked under this account are non-recurring income items that cannot be classified under the regular income accounts. Among those included in this classification are collections from three banks on contested assessment billings pertaining to previous years, leasehold payments for office space by the closed Pacific Bank, interest and penalties on late payment of assessments, dividends from PLDT, and proceeds from sale of old newspapers, etc.

NOTE 17 - CONTESTED BILLINGS

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

Name of Bank	Assessment Deficiency	Escrow Deposits	Trustee
	(In Thousand Pesos)		
Philippine Banks			
Rizal Commercial Banking Corp.	P 899	P 899	LBP
Foreign Banks [a]			
Bank of America	51,315	0	-
Citibank, N.A	59,427	0	-
Hongkong and Shanghai Bank	21,293	0	-
Total	**P 132,934**	**P 899**	

[a] These foreign banks brought to court the issue of assessability of certain liabilities considered by PDIC as deposits Case is still pending resolution and escrow deposits have not been made.

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The BOARD OF DIRECTORS
Philippine Deposit Insurance Corporation
Makati City

Pursuant to Section 2, Article IX-D of the Philippine Constitution, we have audited the accompanying balance sheet of Philippine Deposit Insurance Corporation as of December 31, 1997, and the related statements of income and retained earnings and cash flows, for the year then ended. These financial statements are the responsibility of the Company's management.

As discussed in Finding No. 1, the Corporation's provisioning methodology may not reflect a fair estimate of the probable losses that may occur in case of bank closures contrary to Section 6(d) of R.A. 3591. For CY 1993-1996, we did not express an opinion on the fairness of the presentation of the financial condition and results of operations of the Corporation. As for the CY 1997, the amount provided for probable insurance losses was P3.559 billion while the estimated insurance losses reached P12.092 billion. Management was still unable to present an objective basis for the setting of the rates of probabilities of bank closures and rate of recovery for commercial banks which could materially affect the amount of provision for probable insurance losses.

As discussed in Finding No. 2, assets and liabilities of closed banks under receivership and liquidation of PDIC with estimated realizable values of P8 billion and P8.9 billion, respectively, were not recorded in the books of accounts as at yearend, contrary to Section 51 of P.D. 1177.

As discussed in Finding No. 3, the Accrued Interest Receivable account was understated by P398,670,432 due to non-recording of the differential which arose out of the excess of market rate over the minimum carrying cost on the financial assistance granted to banks.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion as to the fairness of the presentation of the financial position of Philippine Deposit Insurance Corporation as of December 31, 1997 and the results of its operations and its cash flows for the year then ended.

COMMISSION ON AUDIT

By:

MYRNA D. MONZON
Corporate Auditor
(State Auditor IV)

March 31, 1998

PHILIPPINE DEPOSIT INSURANCE CORPORATION

December 2, 1998

MRS. MYRNA D. MONZON
Corporate Auditor
Commission on Audit

Dear Mrs. Monzon:

This refers to your State Auditor's Report on PDIC's 1997 Financial Statements received on November 13, 1998. The report cited three major issues (together with all other audit findings) already discussed with your team and PDIC management. We are pleased to summarize our responses as follows:

<u>Finding no. 1 on provisioning for insurance losses</u>

As clarified in our response to your audit of 1996 (attached for ready reference), the past practice of provisioning for insurance losses of setting aside about 95% of net income before provisioning, was replaced by a framework introduced in 1993. This framework took into account insured deposit claims in problem banks on top of those against closed banks that may not be covered by recoveries from such banks. This framework of analysis has been improved over the years by refining the determination of probability of failures as well as differing rates of recovery according to categories of banks.

The field of deposit insurance involves assessments of deposit claims in closed banks and in banks likely to fail against probable recoveries from assets of such banks. The risk of bank failures and track record of recoveries vary greatly among countries and not susceptible to actuarial analysis. Effective and timely enforcement of safe and sound banking practices tend to be associated with low bank failures in contrast to regulatory forbearances of unsafe and unsound practices associated with higher risk of failure. Consequently, the level of deposit insurance fund deemed appropriate to meet insured deposit claims will differ among countries depending largely on regulatory enforcement. Furthermore, the methodology developed todate to assess the appropriate level of insurance fund is at its formative stage. Some countries avoid this problem by incorporating provisions in their deposit insurance laws setting target levels as percentage of deposit which in the case of the Federal Deposit Insurance Corporation of the United States is at a minimum of <u>1.25% of insured deposits</u> in contrast to that of Argentina at <u>5% of total deposits</u>.

Peer officials from these institutions regret not being able to rationalize the goals set in their laws and appreciated the framework developed by PDIC as a systematic and coherent approach in the determination of such insurance level. Consequently, the methodology will continue to be utilized incorporating refinements whenever possible.

<u>Finding no. 2 on non-recording in the books of assets and liabilities of closed banks</u>

The assets and liabilities of closed banks under PDIC receivership/liquidation are recorded in the respective books of the closed banks and not in the books of PDIC since these are assets and obligations of the closed banks and not of PDIC. Section 51 of PD 1177 governs the treatment of receipts "as income of Special, Fiduciary or Trust Funds or Funds other than the General Fund only when authorized by law and following such rules and regulations as may be issued by a Permanent Committee consisting of the Secretary of Finance as Chairman, and the Commissioner of the Budget and the Chairman, Commission on Audit, as members." In our view, this applies to resources of the National Government normally incorporated as part of the General Fund unless authorized by law and in accordance with rules and regulations issued by the said Committee. Resources of banks are private in nature and do not belong to the government though this may be mobilized to settle any government claims against the banks. In any event, consistent with your underlying objective for transparency and disclosure, the information on the assets and liabilities of the closed banks shall be included as notes to the financial statements of PDIC henceforth.

<u>Finding no. 3 on non-recording of differential interest (on financial assistance to banks) in the Accrued Interest Receivable Account</u>

The NEBRIT formula in computing interest on financial assistance to banks was a mechanism to adjust interest cost to enhance profitability of banks during the earlier and more difficult phase of rehabilitation. Interest due above the 6% minimum are deferred to future date when the banks may be in a better position to meet such obligations. Nevertheless, non-payment of such deferred interest is still possible because of business uncertainties. It would then be prudent and consistent with SFAS No. 1 Sec. F.7.S.1.F(1) not to record such deferred interest until paid by the banks. We share your concern on control in tracking receivables and shall disclose the deferred interest in the notes to the financial statements henceforth.

We trust that these clarify the major issues raised in your State Auditor's Report and look forward to continued cooperation with you in improving disclosures and better understanding of PDIC operations.

Very truly yours,

ERNEST LEUNG
President

cc: **Amorsonia B. Escarda**
Director
Corporate Audit Office I

Attachment -

PDIC Comments on 1996 Audit Findings of COA on Provisioning for Insurance Losses

1. The Statements of Financial Accounting Standards (SFAS) require that two conditions be met before an estimated loss may be charged to income, namely:

   a. there should be information that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statement; and
   b. the amount of the loss can be reasonably estimated.

   PDIC has developed a monitoring system in 1993 to track performances of banks based on the financial statements of each bank that enabled determination of relative strengths and weaknesses, and therefore, identify vulnerable banks that may fail This served as an early warning device that initially relied on determination of capital adequacy and asset quality of banks. In the earlier stage, the probability of failure was related solely to risk-asset-ratio (RAR). By 1996, this was further refined to include measures on earnings and liquidity.

   PDIC's provisioning takes into account risks from closures of open banks and losses from subrogated claims in closed banks. PDIC method therefore involves determination of probability of bank failure as well as judgment on possible recoveries of bank assets to cover amounts of insured deposits paid or to be paid leaving unpaid balance as estimated loss.

   For open banks, the probability of failure is assigned to each bank on basis of their respective condition monitored periodically through PDIC's Bank Performance Monitoring Center. Probabilities of failure had been refined into four grades for each type of bank with highest failure rate to banks showing insolvency conditions and lowest to strong banks most remote from event of failure. The recovery of bank assets is based on actual realization from liquidation of closed banks. While the liquidation process is largely still incomplete for the closed banks, nevertheless the data used are the best available data todate. On the basis of these data, the recovery rates were derived for the respective types of banks, i.e., the rural banks and the thrift banks. These recovery rates were applied respectively to open banks with likelihood of failure.

   For closed banks, losses from subrogated claims were estimated likewise taking into account PDIC's historical recovery/loss rates.

2. In the methodology employed, financial conditions of each bank were analyzed individually enabling the identification of each bank that is in risk of closure.

   Therefore such an approach must necessarily be a case to case evaluation not only of commercial banks but also of thrift and rural banks as well.

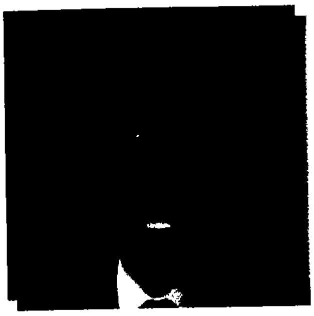
   The estimated recoveries for commercial banks (KBs) were based on a recovery rate higher than the empirical figures for thrift and rural banks. Such rate was assigned keeping in mind that KBs generally have assets with better quality and better values. This assumption was recently validated in the case of Pacific Bank, the ongoing liquidation process of which, has already reflected a higher recovery

3. The time value of money is a generally recognized concept in business. In PDIC's case, the opportunity cost in question pertains not to the loss of probable income but to the diminished value of delayed recoveries as a consequence of the normal liquidation process

   In this regard, we wish to call your attention to Par. 4 of SFAS No. 3 covering long term receivables that provides in part, "Long term receivables may be stated at their discounted amounts when the notes nominally bear no interest or an interest rate which is unreasonably low." PDIC's subrogated claims against the closed bank in fact is a principal receivable that had remained unpaid for a protracted period in Philippine liquidation experienced to date.

   Failure to account for the opportunity cost in delayed recoveries will result in unsafe level of provisioning for insurance losses The reserves could be imprudently diminished through premature refunds and/or reductions of insurance premium The ability of the PDIC to confront a major bank failure and fund insurance claims will be impaired This will compel PDIC not only to increase insurance premiums but also incur costly borrowings.

BOARD OF DIRECTORS



Roberto F. de Ocampo[a]
Chairman

As the Secretary of the Department of Finance, Mr. de Ocampo is concurrently the Chairman of the Board of Directors. Before his appointment as Finance Secretary, Mr. de Ocampo served as the youngest Chairman and Chief Executive Officer of the Development Bank of the Philippines.

He was voted 1997 Finance Minister of the Year by the Asiamoney Magazine, 1996 Asia's Best Finance Minister, and 1995 Best Finance Minister by Euromoney Magazine.

A Bachelor of Arts in Economics graduate of the Ateneo de Manila University, Mr. de Ocampo also holds a Master in Business Administration degree from the University of Michigan and was a Fellow in Development Administration of the London School of Economics.

Ernest Leung
Vice Chairman and President

Appointed as PDIC President in 1994, Mr. Leung serves as the Vice Chairman of the PDIC Board of Directors and Chairman of the Central Bank - Board of Liquidators. Prior to his PDIC appointment, Mr. Leung was the Acting Secretary of Finance.

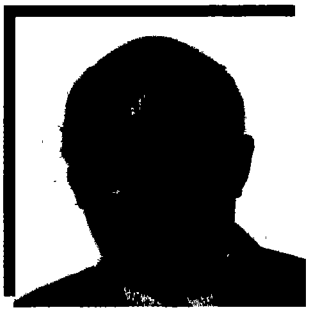
A Bachelor of Arts in Natural Science graduate of the Ateneo de Manila University, Mr. Leung obtained his Master of Arts degree in Development Economics from Williams College, USA, under the Ford Foundation Fellowship.

Gabriel C. Singson[b]
Member

In July 1993, Mr. Singson was appointed as the first governor of the Bangko Sentral ng Pilipinas, formerly Central Bank of the Philippines, and Chairman of the Monetary Board. He joined the Central Bank of the Philippines in 1955 and rose to become Senior Deputy Governor. He left Central Bank in 1992 to assume the post of President of the Philippine National Bank.

He holds the distinction of being named as Central Bank Governor of the Year for two successive years, 1996 and 1997, by Asiamoney Magazine.

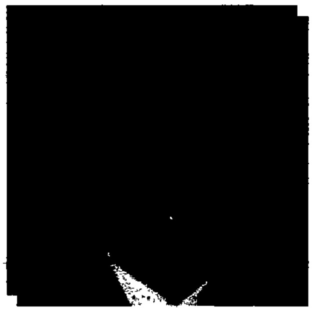
Mr. Singson obtained his Bachelor of Laws from Ateneo and garnered second place in the Philippine Bar examination. He received his Master of Laws degree from the University of Michigan as a Dewitt Fellow and Fulbright Scholar.



Alberto A. Pedrosa
Member

Mr. Pedrosa is currently the editor of Eurostudy, a London-based publication which focuses on the international capital markets. He is responsible for the design and implementation of the computer system for the Eurostudy database. Prior to his appointment as PDIC Board Member, Mr. Pedrosa was the Philippine Ambassador to Belgium and to the European Union.

He earned his Bachelor of Arts degree at the University of the Philippines, and pursued postgraduate studies in Public Economics at the University of Paris.



Celso L. Dayrit
Member

Mr. Dayrit is the Director and General Manager of the Sacobia Hills Development Corporation; and Director of Hesed Development Inc. He served in various key positions in the credit card business of some of the major banks in the country: Vice President of the Bank of Philippine Islands; General manager of the BPI Express Card Corporation; Senior Vice President/Treasurer of the Philippine Commercial Credit Card Corporation of PCIBank; and Vice President of PCIBKard Incorporated.

Also active in sports, he is the President of the Philippine Amateur Fencers Association, Executive Officer/Treasurer of the Asian Fencing Confederation, the only Filipino Director of the International Olympic Committee (IOC) Solidarity, and a member of the Philippine Olympic Committee. During his stint as Commissioner of the Philippine Sports Commission, he conceptualized the Philippine National Games which was declared by President Fidel V. Ramos as the "centerpiece of the country's national sports development program".

Mr. Dayrit obtained both his Bachelor of Science in Business Administration and Master in Business Administration degrees from the De La Salle University.

[a] In his absence, the Acting Secretary of the Department of Finance serves as Chairman
[b] In his absence, Deputy Governor Alberto V. Reyes serves as alternate member

LIST OF OFFICERS

AS OF 31 DECEMBER 1997

CORPORATE DIRECTION AND CONTROL SECTOR

Office of the President

ERNEST LEUNG
President

ESTER B BINALLA
Corporate Executive Officer III

VICENTE T DE VILLA III
Corporate Executive Officer I

Office of the Executive Vice President

RICARDO M TAN
Executive Vice President

JOSE RAYMUNDO O GONZALES
Corporate Executive Officer I

MA CARMEN ROSARIO Z RECITAS
Corporate Executive Officer I

Office of the Vice President - Special Services

CATHERINE F BAMBA
Vice President

Planning Center

SANDRA B CATRAL
Corporate Executive Officer II

JOSE G. VILLARET, JR
Chief Research Specialist

Information Technology Center

RODANTE G PINEDA
Department Manager III

JOSE ALEXANDER G. FESTIN
Corporate Executive Officer I

Client Services and Information Center

AURAMAR D. CALBARIO
Corporate Executive Officer I

NIMFA D CAMUA
Corporate Executive Officer I

Management Control Office

ARMANDO L QUILALA
Vice President

FILOMENA E JONGCO
Assistant Department Manager II

ZENAIDA A VILLAROMAN
Assistant Department Manager II

CARLITO B BANAAG
Corporate Executive Officer I

QURALENE P PATALINGHUG
Corporate Executive Officer I

Office of the Corporate Board Secretary

ANN CLAIRE C CABOCHAN
Corporate Board Secretary V

VICTORIA P MARTINEZ
Corporate Executive Officer II

LEGAL AFFAIRS SECTOR

Office of the Vice President - Legal Services

MANUEL LINO G FAELNAR
Vice President

Legal Services for Operations Center

CRISTINE C. REMOLLO
Department Manager III

FERNANDO S ABADILLA
Assistant Department Manager II

MA LOLITA S LIBUNAO
Attorney IV

LUISITO Z MENDOZA
Attorney IV

NOLA OLYMPIA J SILERIO
Attorney IV

Legal Services for Administration Center

JOSETTE SONIA H MARCILLA
Assistant Department Manager II

MARIE HAZEL V CIRIACO
Attorney IV

R & L Litigation Center

PABLO Y ROMERO, JR
Department Manager III

MA ANTONETTE B BOLIVAR
Assistant Department Manager II

NANCY L SEVILLA
Attorney IV

MARIVIC C ARRIOLA
Legal Officer IV

MELVYN M GONZALES
Legal Officer IV

Corporate Litigation Center

JESUS G SERRANO
Department Manager III

MARY ROSALIND A ALARCA
Assistant Department Manager II

Investigation Center

PIO B CHAN, JR.
Assistant Department Manager II

RICARDO D. ANTONIO
Corporate Executive Officer I

INSURANCE AND EXAMINATION SECTOR

Office of the Vice President - Insurance and Bank Performance Monitoring

FLORDELIZA F. RAMOS
Vice President

Insurance Office

JOCELYN J NEPOMUCENO
Department Manager III

MA. TERESA C VESTAL
Corporate Executive Officer I

Bank Performance Monitoring Center

BENJAMIN M SALES, JR
Department Manager III

JANET B. AGUILA
Corporate Executive Officer I

ANTONIO MA. BENJAMIN B. FUENTES
Corporate Executive Officer I

LOURDES H ILARDE
Corporate Executive Officer I

Field Examination Center I

NORMA C REYES
Department Manager III

ANITA R GONGON
Assistant Department Manager II

MA LUCILA H REYES
Corporate Executive Officer I

Field Examination Center II

SERAFIN A FULE, JR
Assistant Department Manager II

ALTEO C MALABUYOC
Assistant Department Manager II

SHIRLEY G FELIX
Corporate Executive Officer I

Office of the Vice President - Special Actions and Assistance Group

RESCINA S BHAGWANI
Vice President

Financial Assistance Management Center

MA. ANA CARMELA L VILLEGAS
Department Manager III

JOSEFINA J. VELILLA
Assistant Department Manager II

Failure Resolution Center

SANDRA A DIAZ
Department Manager III

MA. ESTER D. HANOPOL
Corporate Executive Officer I

CLAIMS, RECEIVERSHIP AND LIQUIDATION SECTOR

Office of the Vice President - Claims, Receivership and Liquidation I

ELENITA B VIDAL
Vice President

Presettlement Examination Center

FLORDELIZ C PORSOVIGAN
Department Manager III

VICTORIA M CANCINO
Assistant Department Manager II

Claims Settlement Center

TEODORO E GALLARDO
Department Manager III

VIVENCIO M MANIAGO
Assistant Department Manager II

ROSENDA L BARRIL
Corporate Executive Officer I

CRL - Data Center

ELIZABETH E OLLER
Department Manager III

NICANORA H BAG-AO
Corporate Executive Officer I

LUISITO M CARREON
Corporate Executive Officer I

MA THERESA B SALCOR
Corporate Executive Officer I

Office of the Vice President - Claims, Receivership and Liquidation II

AURORA C BALDOZ
Vice President

MA TERESA H GARCIA
Assistant Department Manager II

R&L Takeover Center

TEODORO JOSE D. HIRANG
Assistant Department Manager II

FERDINAND M BELUAN
Assistant Department Manager II

ELMER JUAN C HABER
Corporate Executive Officer I

Asset Administration and Recovery Center I

NOEMI R. JAVIER
Department Manager III

BENEFICO M MAGDAY
Assistant Department Manager II

ANTONIO V MARQUEZ
Assistant Department Manager II

ANGEL B OBRERO
Assistant Department Manager II

RENATO N. PULIDO
Assistant Department Manager II

ZOSIMA D LACONSAY
Corporate Executive Officer I

BERNARDO A TABUGADER
Corporate Executive Officer I

ROSANNA D. DALUPAN
Corporate Executive Officer I

Asset Administration and Recovery Center II

TERESITA D GONZALES
Department Manager III

LEVY C. CRUZ
Assistant Department Manager II

IMELDA R SALGADO
Assistant Department Manager II

MARY ANN C. CRISOSTOMO
Corporate Executive Officer I

FLORANTE D. LUCOS
Corporate Executive Officer I

R&L Settlement Center

EDITA D VILLAR
Department Manager III

ALBERTO M. CRUZ
Assistant Department Manager II

MA. REDENCION S DAVID
Corporate Executive Officer I

RIZALINA I. REPEDRO
Corporate Executive Officer I

Appraisal and Other R&L Support Services Center

RAMON A MAAMO
Assistant Department Manager II

CORPORATE SERVICES SECTOR

Office of the Vice President - Finance

MA ELENA E BIENVENIDA
Vice President

Treasury Center

JOSEFINA G. COLIGADO
Department Manager III

MERLIE M. CAÑAVERAL
Assistant Department Manager II

RUTH A REFRAN
Corporate Executive Officer I

GLORIA M VILLANUEVA
Division Chief III

Accounting Center

GERONIMO V AMBE
Department Manager III

FELY D REYES
Assistant Department Manager II

THELMA B ARIAS
Division Chief III

JUANITO R. ENRIQUEZ
Division Chief III

AURORA A TORRES
Division Chief III

Office of the Vice President - Human Resource/Internal Services Management

JUAN V LANTING
Division Chief III

Human Resource Management Center

ELISEO R. RAMALLOSA
Assistant Department Manager II

ROSARIO F. ADVIENTO
Corporate Executive Officer II

ARACELI H TABAC
Corporate Executive Officer I

Internal Services Management Center

ZENAIDA P BAUTISTA
Assistant Department Manager II

EUSTAQUIA M QUITEVIS
Corporate Executive Officer III

HERMINIA T LLOREN
Division Chief III

Provident Fund Office

SIMEON B. KASALA, JR
Chief Accounts Management Specialist

AFFILIATED ORGANIZATIONS

Provident Fund Office

RICARDO M. TAN .... *Chairman*

FLORDELIZA F. RAMOS .... *Vice Chairman*

JOCELYN J. NEPOMUCENO .... *Trustee*

BALDWIN L. SYKIMTE .... *Board Member*

ISMAEL C. SANTILLAN .... *Board Member*

SIMEON B. KASALA, JR. .... *Accountant*

PDIC Employees' Organization (PHILDICEO)

BALDWIN L SYKIMTE .... *President*

BERNARDINO A. TONGKO .... *1st Vice President*

GEORGE BENEDICT O. CARREON .... *2nd Vice President*

IMELDA K. MAGSINO .... *Treasurer*

ISMAEL C. SANTILLAN .... *Secretary*

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

VIVENCIO M. MANIAGO .... *Chairman*

RESCINA S. BHAGWANI .... *Vice Chairman*

ESTER B BINALLA .... *Secretary*

CATHERINE F BAMBA .... *Board Member*

IMELDA R. SALGADO .... *Board Member*

ZOSIMA D. LACONSAY .... *Board Member*

ERIBERTO B MAGBUHAT . . .. *Board Member*

ORGANIZATIONAL CHART