1998
ANNUAL REPORT

LIPPINE DEPOSIT INSURANCE CORPORATION

Vision

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

The PDIC employee, an epitome of exemplary public service

Mission

As INSURER provide adequate depositor protection and education and ensure immediate processing and settlement of depositor claims,

As REGULATOR conduct diligent monitoring and examination of member banks and implement prompt decisive and prudent interventions

As RECEIVER implement efficient receivership, judicious rehabilitation and expeditious liquidation of closed banks

Beliefs

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

Improvement of service delivery is a continuing commitment, and

People are our most important resource

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PHILIPPINE DEPOSIT INSURANCE CORPORATION

CITY OF MAKATI

Office of the President

July 1999

HIS EXCELLENCY
PRESIDENT JOSEPH E. ESTRADA
Malacañang Palace, Manila

Dear Mr. President:

I have the honor to submit the 1998 Annual Report of the Philippine Deposit Insurance Corporation. The report features the Corporation's performance and gives recognition to the dedication and hard work of PDIC staff in fulfilling the Corporation's mandate to protect depositors.

Anticipating further challenges with continuing liberalization, we shall remain committed in safeguarding the interest of depositors by further strengthening public confidence in the banking system and striving to deliver higher quality service.

The Board of Directors, management and staff extend their congratulations to the new administration and pledge their untiring support towards better depositor protection.

Very respectfully yours,

ERNEST LEUNG

PHILIPPINE DEPOSIT INSURANCE CORPORATION
CITY OF MAKATI

Office of the President

July 1999

HONORABLE BLAS F. OPLE
President of the Philippine Senate

HONORABLE MANUEL B. VILLAR, JR.
Speaker of the Philippine House of Representatives

Dear Sirs:

I have the honor to submit the 1998 Annual Report of the Philippine Deposit Insurance Corporation pursuant to the provision of Section 15 of Republic Act 3591, As Amended.

The report highlights the performance of the Corporation in pursuit of its mandate to provide greater depositor protection.

Very respectfully yours,

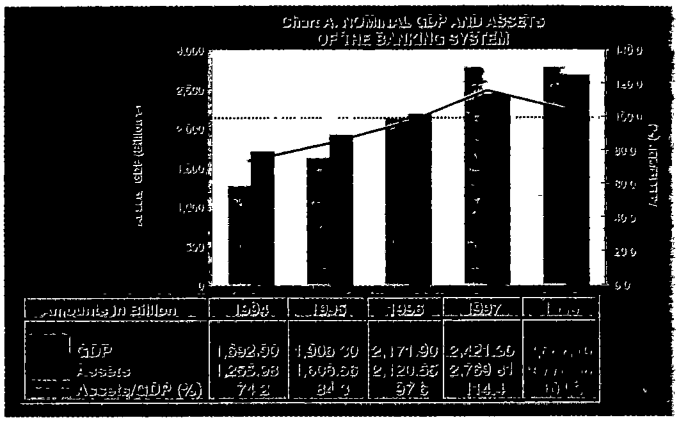
ERNEST LEUNG

THE ECONOMY AND THE BANKING SYSTEM

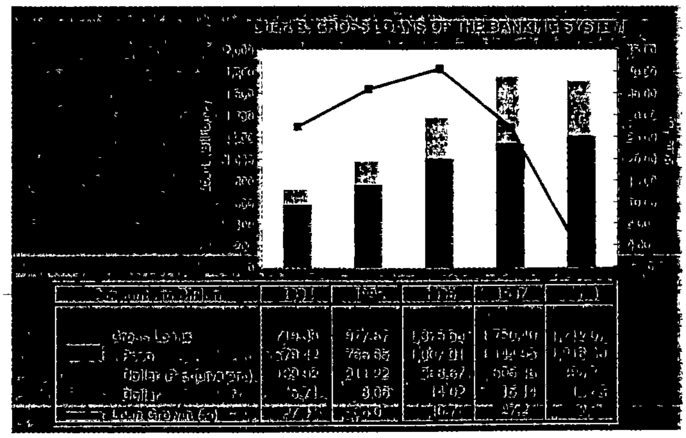
The Philippine economy continued to decelerate in 1998 following the slowdown of the previous year triggered by the regional currency crisis and aggravated by the El Niño phenomenon. Gross national product (GNP) in real terms grew by a mere 0.1 percent compared to 5.3 percent in 1997, while gross domestic product (GDP) contracted by 0.5 percent after increasing by 5.2 percent. Agricultural output was adversely affected by the prolonged drought and industry was dampened by tight credit and high cost of imports as a result of peso depreciation. Only the services sector expanded though at a slower pace than last year.

Nominal GDP increased from P2.42 trillion in 1997 to P2.67 trillion in 1998 growing by 10.2 percent, slightly lower than the 11.5 percent realized the previous year. Gross domestic saving (GDS) decreased from P503.78 billion in 1997 to P496.94 billion in 1998, a contraction of 1.4 percent in contrast to an expansion of 20.4 percent a year ago. The decline in GDS was a result of faster increase in expenditures than in incomes of all sectors though mitigated by a rise in depreciation. As nominal GDP increased and GDS decreased, the saving rate, measured by the ratio of GDS to GDP, dropped from 20.8 percent to 18.6 percent. Gross domestic capital formation (GDCF) likewise fell from P601.95 billion to P541.23 billion with investments depressed by diminished prospects in the economy. This resulted to a decline in the ratio of GDCF to GDP from the previous level of 24.9 percent to 20.3 percent in 1998.

Total assets of the banking system tapered by 0.2 percent from P2.77 trillion in 1997 to P2.78 trillion in 1998 due to deceleration in economic activity. This contrasted with the robust expansion in bank assets since 1987 as shown by the growing significance of the banking system to the economy as measured by the ratio of bank assets to GDP. From a peak of 114.4 percent in 1997, the ratio slid to 104.3 percent in 1998 (Chart A).



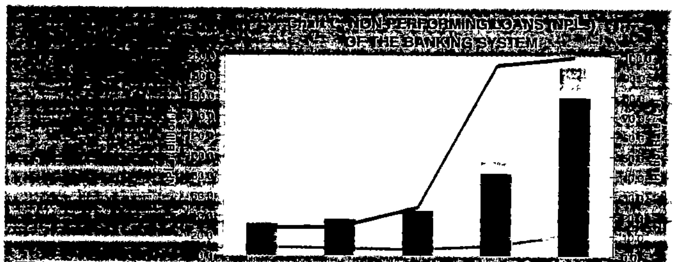
Outstanding loans of the banking system shrank by 2.2 percent from P1.75 trillion in 1997 to P1.71 trillion in 1998 as loan demand was sluggish and banks were not inclined to lend (Chart B). The contraction was accounted for by the reduction in dollar loans by 16.4 percent, which in peso terms was reduced even more because of the slight appreciation of the peso in 1998. The drop in dollar loans was due to adjustments by borrowers adversely affected by the significant increase in the peso equivalent of their dollar obligations following the currency turmoil in 1997. Most borrowers shifted out of dollar loans in contrast to the rapid growth of over 30 percent per annum from 1994 to 1996 induced by strong peso exchange rate policy at high interest rate greater than on dollars. Growth in dollar loans slowed down by 1997 and declined the following year.



Banks deployed more resources to government securities and payment of liabilities both in peso and foreign currency. Investments in long-term government securities increased by 46.7 percent from P136.39 billion in 1997 to P200.07 billion in 1998, while combined liquid assets of banks decreased by 3.2 percent from P580.97 billion to P562.45 billion.

Non-performing loans[1] (NPLs) doubled from P94.75 billion in 1997 to P189.20 billion in 1998 (Chart C), partly due to a more stringent policy shortening the period of classifying loans as past due. This, together with contraction in gross loans, raised past due ratio from 5.4 percent to 11.0 percent. To address this, the Bangko Sentral ng Pilipinas (BSP) required increase in capital coupled with higher provisioning for NPLs. Banks accelerated their allowances for probable loan losses from P38.96 billion in 1997 to P68.83 billion in 1998. The ratio of loan loss reserves to gross loans improved from 2.2 percent to 4.0 percent. However, the coverage ratio with respect to NPLs slipped from 41.1 percent in 1997 to 36.4 percent in 1998 as build-up of loan loss reserves was outpaced by the growth of NPLs.

CHART C. NON-PERFORMING LOANS (NPLs) OF THE BANKING SYSTEM

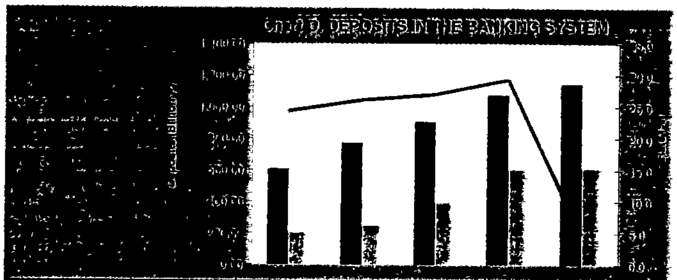


Amounts in Billion	1994	1995	1996	1997	1998
Total NPLs	54.07	[illegible]	[illegible]	94.75	189.20
Peso	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar (P Equivalent)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NPL Growth (%)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NPL/Gross Loans (%)	4.7	[illegible]	3.5	[illegible]	11.0

Banks addressed deteriorating loan quality through restructuring of delinquent accounts and hastening foreclosures. From 1997 to 1998, current restructured loans increased by 241.5 percent from P12.30 billion to P42.00 billion. Real and other properties owned or acquired (ROPOA) by banks likewise rose by 136.0 percent from P26.27 billion to P62.02 billion. Non-performing assets of the banking system, the sum of NPLs, ROPOAs and restructured loans, amounted to P293.22 billion in 1998 with corresponding ratio to total assets of 10.6 percent from 4.8 percent in 1997.

Banks sourced 86.0 percent of their total funds from liability accounts and 14.0 percent from capital in 1998. Of the total liabilities, deposits still constitute the bulk at 73.6 percent. Deposit growth, however, slowed down in 1998 to 4.8 percent in contrast to 29.3 percent in 1997. The level of deposits increased slightly from P1.67 trillion in 1997 to P1.75 trillion in 1998 compared to the 25.8 percent average annual growth in deposits from 1994 to 1996 (Chart D). Total deposits grew in 1997 mainly because of peso depreciation that increased the value of dollar-denominated deposit liabilities. Dollar deposits started to taper in 1997 increasing by only 1.1 percent while its peso equivalent soared by 54.1 percent.

CHART D. DEPOSITS IN THE BANKING SYSTEM



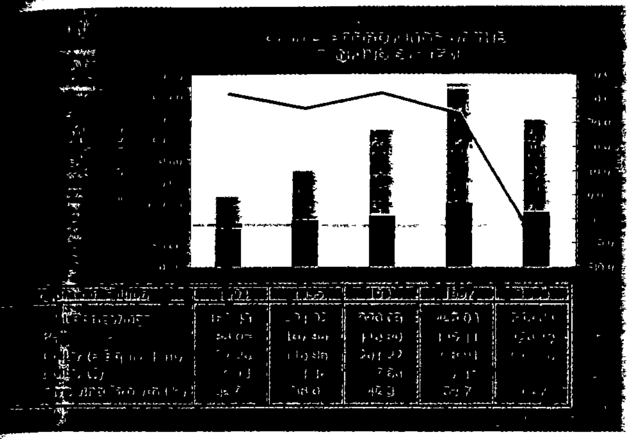
Amounts in Billion	1994	1995	1996	1997	1998
Total Deposits	807.90	1,018.93	1,294.40	1,674.08	[illegible]
Peso	607.17	771.33	903.88	1,072.38	[illegible]
Dollar (P Equivalent)	200.73	247.60	390.52	601.70	609.09
Dollar	8.00	9.44	14.85	15.01	15.57
Deposit Growth (%)	[illegible]	26.1	27.0	29.3	[illegible]

Deposits with commercial banks increased to 90.4 percent of total deposits in 1998 from 89.7 percent in 1997 with corresponding contraction in thrift banks to 7.5 percent in 1998 from 8.1 percent in 1997. Rural banks maintained their market share at 2.1 percent. A factor accounting for the slowdown in deposit growth was the closure of 23 banks displacing P5.48 billion from the deposit base of the banking system. While the closure of these banks accounted for only 0.3 percent of total deposits, this nevertheless affected 168,534 accounts causing disruption in the lives of depositors. Moreover, payment of insured deposits took time due to difficulty in verifying accounts given the poorly maintained deposit records. This delay could be avoided if regulators are allowed access to deposit records before closure which is prevented by the Bank Secrecy Act.

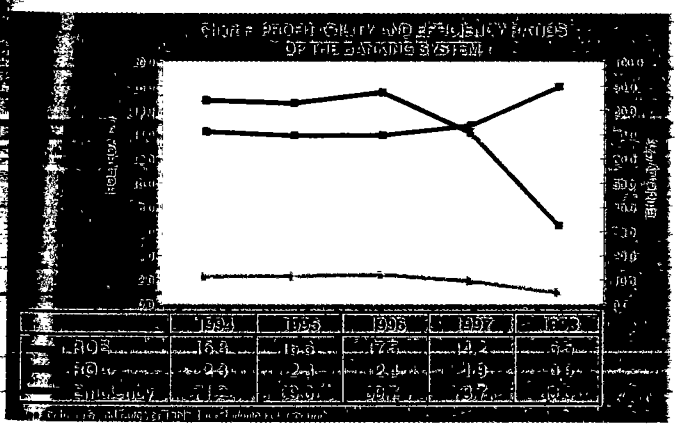
Bank borrowings likewise diminished by 19.7 percent from P428.03 billion in 1997 to P343.54 billion in 1998 (Chart E). This trend was a significant reversal to the robust annual average growth of 40.1 percent from 1994 to 1996 when borrowings then augmented deposits in financing loans. Borrowings during this period were mostly in foreign currency from 46.8 percent of total borrowings in 1994 to 62.9 percent in 1996. When the currency crisis struck in 1997, dollar-denominated borrowings contracted by 6.7

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

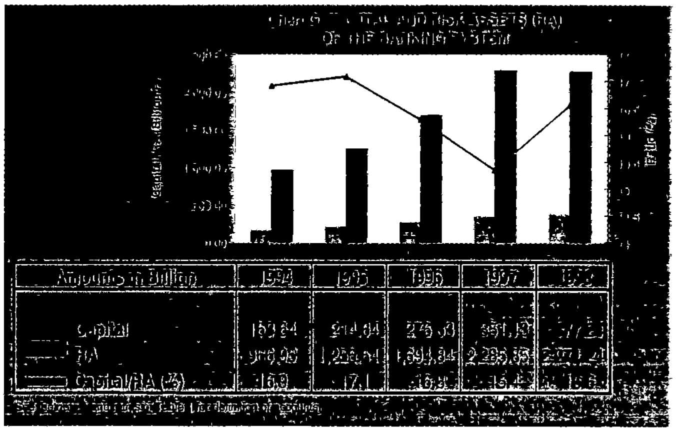
percent although the peso equivalent soared by 38.6 percent. With the ensuing slack in credit demand in 1998, banks hastened the settlement of these accounts.



The continuing strains on the economy and corresponding adjustments within the banking industry depressed bank profits in 1998. Banks' collective net income before tax was trimmed down by 46.6 percent from P46.15 billion in 1997 to P24.62 billion in 1998. Likewise, return on assets (ROA) declined from 1.9 percent in 1997 to 0.9 percent in 1998 and return on equity (ROE) dropped from 14.2 percent to 6.5 percent (Chart F). The lower earnings in 1998 was attributed to the sharp deceleration of both interest income and interest expense, with interest income tapering more than interest expense. With higher other operating expenses particularly provisions for loan losses, the efficiency level of the banking system further deteriorated from 73.7 percent in 1997 to 89.6 percent in 1998.



Nevertheless, the banking system has withstood the stresses brought about by the currency crisis. Philippine banks have been capitalized to absorb potential losses as capital adequacy ratio stood at 16.6 percent in 1998, higher than the minimum 10 percent required by the BSP (Chart G). Though one commercial bank, six thrift banks and sixteen rural banks[2] closed during the year, their aggregate assets accounted for only 0.4 percent of total assets of the system.



The pace of economic recovery will depend largely on adherence to sound macroeconomic policies and pursuit of reforms in the banking system. Monetary policy should focus on raising domestic demand by ensuring adequate liquidity but at level consistent with low price regime. It should also refrain from using interest rates to defend the exchange rate which should be competitive to warrant a sustainable balance of payments. As a temporary measure to stir production, government's pump-priming activities should be limited in duration and amount. The increase in public expenditures should be rationalized and matched with improved revenue-generating measures and efficient tax collection procedures. At the same time, banking reforms should focus in strengthening regulatory agencies by enhancing their supervisory and enforcement powers to implement policies that will promote greater transparency and competition in the system. These should be complemented by increased capitalization, and mergers and acquisitions to meet international standards and equip banks so as to withstand competition.

[2] Excludes 17 rural banks in Lanao del Norte and Sur which were non-operational since the 1970s/1980s but were closed by the Monetary Board only in 1998

Table 1. SELECTED INDICATORS ON THE PHILIPPINE BANKING SYSTEM, 1994-1998*
Amounts in Billion Pesos

Indicators	1994	1995	1996	1997	1998
Statement of Condition					
ASSETS	**1,255.98**	**1,606.56**	**2,120.55**	**2,769.81**	**2,775.86**
Quick Assets	340 45	395.50	478 38	580.97	562 45
Cash on Hand	18.74	23.50	32.55	43 82	44 25
Cash and Other Cash Items	1.21	1.22	2.58	2.74	1 66
Due from BSP	92.67	101.23	111.19	130.49	127.08
Due from Banks	90.65	97 39	116.93	178.03	155.42
Marketable Securities	71.04	66.32	73 04	89.50	33.97
Investment - Government	66.14	105 86	142 10	136.39	200 07
Net Loans	704.81	961 19	1,357 11	1,711.45	1,643.24
Gross Loans	719 33	977.87	1,375.68	1,750 40	1,712 07
Current Loans	685.26	938.87	1,327 19	1,655.66	1,522 87
Non-Performing Loans[1]	34.07	38 99	48.49	94.75	189.20
Allowance for Probable Losses	14.52	16.68	18 57	38.96	68 83
Investments[2]	82 04	93.53	98.16	184 92	236 51
Other Assets[3]	128.68	156 34	186.90	292 48	333 66
LIABILITIES	**1,087.04**	**1,381.37**	**1,833.04**	**2,406.39**	**2,386.06**
Deposits	807.90	1,018.93	1,294 40	1,674 08	1,754.97
Demand & NOW	68.39	88.43	111.11	130 17	152 83
Savings	542.68	687.19	816 73	1,021.86	1,070 31
Time	196.82	243 31	366.56	522.05	531 83
Borrowings	165 43	224 90	320 03	428.03	343 54
Other Liabilities	113.72	137.54	218 62	304.28	287.55
CAPITAL	**168.94**	**225.19**	**287.51**	**363.42**	**389.80**
Income & Expenses					
NET INTEREST INCOME	**46.96**	**59.13**	**79.96**	**111.61**	**119.57**
Interest Income	103.80	132.33	179 57	259.23	295 85
Interest Expense	56.85	73 20	99.61	147.62	176 28
NET OTHER OPERATING INCOME/(LOSS)	**(27.18)**	**(32.81)**	**(46.21)**	**(71.01)**	**(102.86)**
Other Operating Income	21 74	27.54	31.51	43 02	41 87
Other Operating Expense	48.92	60.36	77.72	114 03	144 73
NET NON-OPERATING INCOME	**5.71**	**6.41**	**11.10**	**5.55**	**7.91**
NET INCOME BEFORE TAX	**25.49**	**32.73**	**44.86**	**46.15**	**24.62**
Provision for Income Tax	2.33	2.30	4.39	3 97	2.67
NET INCOME AFTER TAX	**23.16**	**30.43**	**40.46**	**42.18**	**21.95**
RATIOS (%)					
Capital/Risk Assets[4]	16 92	17.10	16 30	15 36	16 61
Non-Performing Loans/Gross Loans	4.74	3.99	3 52	5 41	11.05
Allowance for Probable Losses/Non-Performing Loans	42.62	42.78	38 30	41 11	36.37
Allowance for Probable Losses/Gross Loans	2.02	1 71	1 35	2.23	4.02
Other Operating Expense/Net Interest Income + Other Operating Income (Efficiency)	71 21	69 64	69 72	73.74	89 65
Gross Loans/Total Deposits	89.04	95 97	106 28	104.56	97.56
Net Income BeforeTax/Average Total Assets[5] (ROA)	2 26	2 29	2.41	1 89	0.89
Net Income Before Tax/Average Total Capital[5] (ROE)	16 84	16.61	17.50	14 18	6 54

* Covers PDIC member banks and their overseas branches

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

[2] Comprised of investments in bonds and other debt instruments (IBODI-others), equity investments, underwriting accounts; excludes marketable securities and investment in government securities which are 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 of 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 from summing up the beginning and yearend levels divided by two

C OPERATIONS

K MONITORING AND SUPERVISION

PDIC's bank monitoring and supervision aims primarily to ure strict adherence of banks to safe and sound banking ctices. Bank performance is monitored through off-site lysis using information from bank reports regularly submitted he Corporation Independent examination of banks is also nducted to validate results from off-site analysis and to mplement examinations made by the Bangko Sentral ng ilipinas (BSP) The Corporation also extends financial sistance to a distressed bank when continued operation of the ank is deemed essential to provide adequate banking services n the community or to maintain financial stability in the economy

Off-site Monitoring

PDIC's monitoring system commences with the submission of financial statements and reports by member banks. Data from these reports are processed to meet analytical requirements and provide basis for making informed judgement Critical to the monitoring system is the timeliness and accuracy of information. In this regard, PDIC continues to coordinate with banks to facilitate report submission improve the quality of reports and pursue correction of problems In 1998, reports submission by commercial banks was coursed via electronic mail system, while thrift banks' reports were submitted in diskette format, thus eliminating manual encoding. Constant discussions with perennially delinquent banks were conducted to discuss solutions to their reportorial problems. Information brochures on procedures and frequency of submission, as well as letter-reminders, were sent to ensure that banks are properly guided Through these efforts, report compliance rate, measured by the number of reports submitted over the number of expected reports, improved to 90.1 percent in 1998 from 61.0 percent in 1994 The quality of reports submitted as determined in terms of correctness, completeness and consistency of data also improved to a high of 91.4 percent in 1998 from a low of 71.5 percent in mid 1997

Processing of information was also enhanced with the initial operation of the Bank Performance Monitoring System (BPMS) in September. The BPMS is an integration of two database systems previously used to separately monitor deposit data and financial condition of banks Its capabilities include easier and faster generation of statistical reports in various formats for use in analysis, automated tracking of report submission by member banks, and auto-verification of data errors. With the BPMS, some of the manual processing of the former systems were eliminated The new system allows for better management of financial data and information on member banks and more timely dissemination of information both to internal and external users. Since the implementation of BPMS, turnaround time for generation of selected industry statistics for commercial and thrift banks has been reduced from 6 weeks to 3 weeks after deadline of report submission.

The surveillance function of the Corporation was also strengthened with the early warning system (EWS) The EWS allows for detection of problems and weaknesses in member banks at an early stage This system considers not only the financial information generated through the BPMS but also the adjustments from examination reports and other market information. Among the improvements introduced with this system are the inclusion of additional measures and criteria for flagging down problem banks; modification of the rating system based on the degree of risks and severity of weaknesses, and off-site analysis of each area of risk to guide examiners in their evaluation. The EWS is also used as basis for the dispatch of PDIC bank examination teams and provides vital inputs for the evaluation of provisioning of funds to service insured deposit claims in closed banks and banks at risk of closure.

Bank Examination

Bank examination involves visits to banks of PDIC examiners to validate information obtained from regular bank reports, as well as to acquire updated information on operations and financial conditions of banks At the same time, bank examination provides a better understanding of the risks in insuring bank deposits

Given limitations on staff resources, PDIC adopts a selective approach on banks to be examined, largely on a random basis There are two types of on-site examinations conducted, i.e., regular and follow-through examinations. Major concerns of a regular examination include capital adequacy, asset quality, liquidity, overall management capability, internal controls and sound accounting procedures The entire process from the start of visit to submission of examination report to the PDIC Board may take anywhere from 2 to 3 months depending on the bank's asset size and extent of branch network. In the case of a bank found to have engaged in unsafe and unsound practices, the report is submitted to the Monetary Board for corrective action Where no corrective action is taken by the Monetary Board within 60 days from receipt of the report, the PDIC Board is mandated to institute corrective actions when deemed necessary. Follow-through examination is done to check compliance of banks to corrective measures prescribed in previous examinations Consequently on-site visits to banks may be done more than once a year

In 1998, regular examinations were conducted on 25 banks i.e., 2 commercial, 10 thrift, and 13 rural banks. Total insured deposits in these 25 banks amounted to P45.7 billion, 12.5 percent of total insured deposits in member banks. Two of these banks were closed by the Monetary Board during the year In addition to regular examinations conducted 20 follow-through examinations were also undertaken during the year.

For the first time, joint examinations with BSP were carried out in two banks (1 universal bank and 1 rural bank) Coordination with the primary regulator was further strengthened with discussions held on results of examinations and action plans on selected banks

The Corporation continues to keep abreast with best practices adopted by other deposit insurance entities in foreign countries such as with the U.S. Federal Deposit Insurance Corporation (FDIC) and Canada Deposit Insurance Corporation (CDIC). The visits of Jean Pierre Sabourin in 1996 and Guy St. Pierre in 1997, President and Senior Vice President for Insurance and Risk Assessment of CDIC respectively, provided opportunities for PDIC to learn more about deposit insurance practices adopted especially in the areas of risk assessment and monitoring With the implementation of the Asian Development Bank Technical Assistance (ADB TA) grant for capacity building, the Corporation requested consultants from these two agencies to provide advisory assistance to enhance the analytical process in the conduct of examination. The consultants emphasized the different steps involved in undertaking a risk-based supervision approach, namely, identifying risks, measuring and evaluating risks, developing a supervisory strategy and conclusions based on the findings, and finally communicating these findings to the bank's management and board of directors. A risk-based approach enables examiners to be forward-looking and proactive in their assessment of a bank's risk-taking behavior and quality of risk management. Also, the complementation of responsibilities and sharing and maintenance of a common bank database among bank supervisory entities, which is the case in Canada was presented as a model worth considering for the Philippines Simultaneously, in-house and external training programs were availed of during the year to further build up internal capacity in conducting bank examination.

In December 1998, PDIC started to host regular meetings with the Chamber of Thrift Banks These meetings provided opportunities for consultation with member banks on various issues as well as exchange of views and opinions concerning banking reforms. Further periodic meetings with the Bankers Association of the Philippines and Rural Bankers Association of the Philippines will start next year

Bank Rehabilitation

PDIC assists in bank rehabilitation mainly through grant of financial assistance to restore normal banking operations for the benefit of depositors (Box 1.0)

Box 1.0 FINANCIAL ASSISTANCE FOR BANK REHABILITATION

PDIC is authorized under Section 12(c) of R A. 3591, As Amended, to extend financial assistance to a distressed insured bank when this proves less costly than deposit insurance pay-off and liquidation

Purpose of Assistance

A distressed bank saddled by poor loan portfolio and problematic assets will not be attractive to strong investors PDIC assistance is therefore granted to clean up the balance sheet by removing non-performing assets or by covering accumulated losses in order to make rehabilitation investments viable

Eligible Recipients

- Banks in danger of closing, where continued operation of such bank is essential to provide adequate banking services in the community or to maintain financial stability in the economy
- Banks in sound financial condition with strong track record acquiring control of, merging or consolidating with insured banks in danger of closing or closed insured banks

Modes of Assistance

Depending on the balance sheet structure of the distressed bank or the acquiring bank, financial assistance may be granted in any of the following modalities

- Grant of loans
- Purchase of bad assets
- Assumption of liabilities
- Placement of deposits

Evaluation of Bank Rehabilitation

Most critical to success of bank rehabilitation is the financial strength and professional competence of incoming investors The magnitude of assistance depends largely on the extent of bad assets and losses that need to be financed Incentives given by PDIC also depend on the ability of incoming investors to accelerate rehabilitation

Other Requirements

- Firm commitment for infusion to restore and maintain level to meet at least mandatory minimum requirements
- Change of owners/officers deemed responsible for bank's distressed condition
- Correction of all unsafe and unsound banking practices and condition
- Adequate security for loan assistance

PDIC has granted financial assistance to seven banks since 1992 with total value of P3 39 billion Five of these banks received loans aggregating to P495 million, while two banks were assisted through purchase of non-performing assets In 1994 PDIC purchased P1 40 billion worth of assets from Associated Bank transferred into Westmont Bank under new ownership and management, subject to repurchase over 12 years inclusive of three-year grace period The Bank qualified for discounts on repurchase price starting in 1997 upon its additional capital infusion beyond level committed In 1997, PDIC purchased P1 50 billion worth of assets from Monte de Piedad and Savings Bank of which P1.175 billion was funded by BSP through a loan with PDIC as conduit and the balance shouldered by the Corporation

Outstanding balance on financial assistance at the start of 1998 amounted to P1 64 billion, dropping to P1 18 billion by year-end excluding financial assistance extended to Monte de Piedad and Savings Bank (Table 1.0). Westmont Bank partially settled its obligation amounting to P116.8 million in loan principal net of P38.2 million discount earned. Upon additional infusion of P255 million to cover capital shortfall, bank owners were able to renew discussions with PDIC for the restructuring of the Bank's outstanding assistance. Philippine Veterans Bank (PVB) paid P19 95 million of its outstanding loan. PVB's financial obligation represents PDIC's subrogated claims of P82 million converted into loan in 1992 as a result of the Bank's rehabilitation authorized by Republic Act 7169. Also, during the year, two banks settled principal obligations in full. Insular Savings Bank, recipient of P320 million loan in 1992 for the rehabilitation of Home Bank and Trust Co., prepaid its outstanding balance of P208 million. The Network Rural Bank of Southern Philippines, a merger of six rural banks forged in 1995 with incentives from the Countryside Financial Institutions Enhancement Program, fully settled its outstanding loan of P75 million. By the end of 1998, only two banks had outstanding balance on PDIC financial assistance totaling P1.18 billion.

Table 1.0 FINANCIAL ASSISTANCE*

Yearend Position in Million Pesos

Bank	Date Granted	Mode	Original Amount	Outstanding	
				Jan-98	Dec-98
Network Rural Bank	22-Feb-95	Loan	75 00	75 00	-
Westmont Bank	20-Jun-94	Asset Purchase w/Buyback	1 395 00	1 317 50	1 162 50
Philippine Veterans Bank	3-Aug-92	Loan	82 00	39 90	19.95
Insular Savings Bank	30-Jun-92	Loan	320 00	208.00	-
Total			**1,872.00**	**1,640.40**	**1,182.45**

* Excludes financial assistance extended to Monte de Piedad and Savings Bank

PDIC continues to explore ways of allowing the private sector to take a more active role in bank failure resolution In addition to mergers and acquisitions PDIC is looking into "Purchase and Assumption" (P&A) schemes commonly practiced in some developed countries such as the United States and Canada P&A scheme involves purchase by a strong institution of a distressed bank's assets and assumption of deposit and other liabilities P&A transactions present a promising scheme for minimizing if not preventing disruption to depositors As an initial step PDIC has incorporated in its proposed Charter amendments provisions that will clearly establish the basis for P&A transactions

DEPOSIT INSURANCE

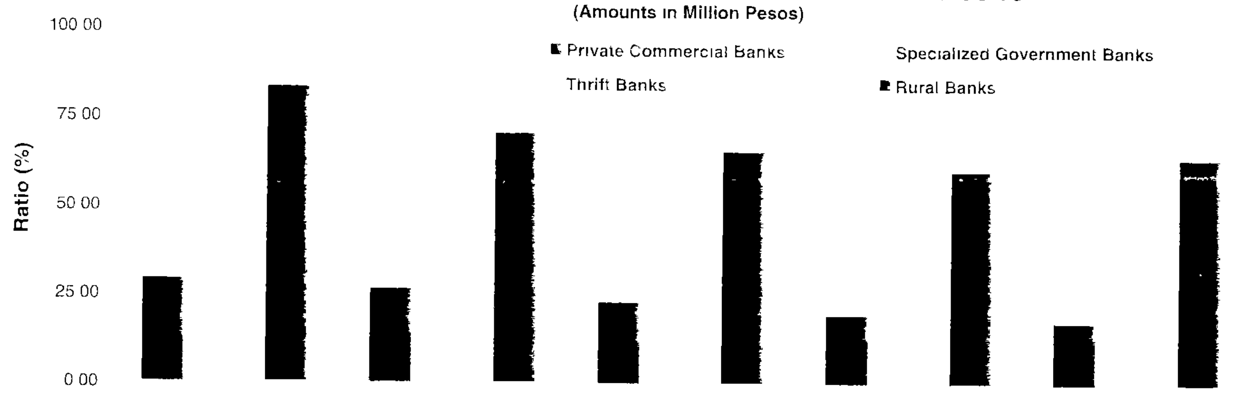
Insurance operations cover the determination and assessment of deposits at risk, assessment and collection of insurance premium, mobilization of funds to ensure availability of resources, building up of reserves to a level deemed adequate to cover estimated risks, and determination of probable recoveries from closed banks under liquidation.

Total Deposits and Deposits at Risk

For the assessment period ended 30 June 1998, member banks increased to 987 consisting of 55 commercial banks including branches of foreign banks, 118 thrift banks and 814 rural banks. This is 4.9 percent higher than the 941 member banks in June 1997. Total deposits in these banks amounted to P1.69 trillion involving 23.97 million accounts, 18.9 percent higher than the P1.42 trillion level in June 1997 and 11.1 percent higher in terms of deposit accounts. About 93.5 percent of deposit accounts is estimated to be fully insured. i.e., accounts not exceeding the maximum insurance cover of P100,000, with equivalent deposit amount of P165.94 billion. Rural banks have the highest percentage of estimated fully insured deposit accounts at 98.6 percent, followed by thrift banks at 95 3 percent and commercial banks at 91.6 percent

Total deposits at risk, or insured deposits, reached P322.10 billion, registering a 10.1 percent increase from the 1997 level and 64.7 percent greater than the level in 1994 (Chart 2.1). As in previous years, 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 1998, 63.4 percent of deposits in rural banks is insured, 32.0 percent in thrift banks, 17.3 percent in private commercial banks, and 13.0 percent in specialized government banks.

Chart 2.1 RATIO OF INSURED DEPOSITS TO TOTAL DEPOSITS
(Amounts in Million Pesos)



Type of Bank	1994			1995			1996			1997			1998		
	Total Deposits	Insured Deposits	Insured to Total	Total Deposits	Insured Deposits	Insured to Total	Total Deposits	Insured Deposits	Insured to Total	Total Deposits	Insured Deposits	Insured to Total	Total Deposits	Insured Deposits	Insured to Total
Commercial Banks	**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%**	**1,521,724**	**256,590**	**16 86%**
Private Banks	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%	1,377,815	237,894	17 27%
Specialized Government Banks	62 653	7 763	12 39%	69 925	9 553	13 66%	101 745	11,751	11 55%	115 445	14,413	12 48%	143 909	18,696	12 99%
Thrift Banks	**55,871**	**25,923**	**46 40%**	**69,987**	**27,693**	**39 57%**	**97 854**	**31,048**	**31 73%**	**143 086**	**41,085**	**28 71%**	**129,649**	**41,469**	**31 99%**
Savings & Mortgage Banks	38,579	16,673	43 22%	44,601	17 058	38 25%	55 537	18 185	32 74%	76,163	23 453	30 79%	72 085	23 578	32 71%
Savings & Loan Associations	5,570	3 966	71 20%	6 921	4 446	64 24%	10 760	5 344	49 67%	13 828	6 505	47 04%	14,345	7 000	46 79%
Private Development Banks	11 722	5 284	45 08%	18 465	6 189	33 52%	31 557	7 519	23 83%	53,095	11 127	20 96%	43 216	10,891	25 20%
Rural Banks	**15,251**	**12,651**	**82 95%**	**20,411**	**14 305**	**70 08%**	**25 849**	**16,824**	**65 09%**	**34,703**	**20 689**	**59 62%**	**37,934**	**24,040**	**63.37%**
Total	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%	1,689,307	322,100	19 07%

Notes
1 Total deposits and insured deposits as of 30 June of the reference year
2 Deposit data covers deposits in PDIC member banks excluding deposits in overseas branches of Philippine banks
3 Specialized government banks consist of DBP LBP and Al Amanah Bank

Funding Sources

The country's deposit insurance system is funded through premiums collected from member banks and capital infusion of government in the form of a permanent insurance fund (PIF) From 1963 to 1992 the government has increased its share in building up insurance reserves with initial authorized PIF in the amount of P5.0 million upon creation of the Corporation in 1963, increased to P20.0 million in 1973. P2.0 billion in 1985, up to the present amount of P3.0 billion authorized in 1992 and fully paid by 1994

Insurance premium is assessed based on member banks' total deposit liabilities at the maximum rate of 1/5 of 1 percent per annum. Premium is collected semi-annually, calculated based on average deposit liabilities as of end of March and June for first semester, payable not later than 31 July, and as of end of September and December for second semester, payable not later than 31 January of the following year

Premiums collected for the year totalled P3.26 billion, an increase of 24.3 percent from the previous year's collection of P2.63 billion (Table 2.1). The bulk of premiums collected amounting to P2.89 billion represents remittances of specialized government and private commercial banks, including domestic branches of foreign banks, and accounts for 88.6 percent of total premiums remitted Collection from thrift banks and rural banks reached P291.0 million and P82.45 million, accounting for 8.9 percent and 2.5 percent of total premium collection, respectively.

Given the rate of premium levied against total deposits, rural banks in effect carry a lower cost of providing insurance with a 0.3 percent ratio of premium paid to insured deposits, in contrast to ratios for commercial and thrift banks which are 1.1 percent and 0.7 percent, respectively (Table 2.1). This is in conformity with equal burden sharing since most rural banks serve the poor communities and clients from the lower-income groups.

Table 2.1 RATIO OF PREMIUM TO INSURED DEPOSITS, 1994-1998
Accounts in Thousands, Amounts in Million Pesos

Type of Bank	Insured Deposits*									
	1994		1995		1996		1997		1998	
	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount
Commercial Banks	**11,262**	**157,027**	**11,791**	**190,835**	**12,404**	**211,314**	**13,721**	**230,715**	**15,859**	**256,590**
Private Commercial Banks	10,768	149,264	11,173	181,282	11,642	199,563	12,814	216,302	14,677	237,894
Specialized Government Banks	494	7,763	618	9,553	762	11,751	907	14,413	1,182	18,696
Thrift Banks	**2,953**	**25,923**	**4,737**	**27,693**	**4,594**	**31,048**	**3,866**	**41,085**	**3,706**	**41,469**
Savings & Mortgage Banks	1,428	16,673	3,270	17,058	3,076	18,185	1,952	23,453	1,824	23,578
Savings & Loan Associations	857	3,966	782	4,446	810	5,344	958	6,505	956	7,000
Private Development Banks	668	5,284	685	6,189	708	7,519	956	11,127	926	10,891
Rural Bank	**3,810**	**12,651**	**3,836**	**14,305**	**3,862**	**16,824**	**3,987**	**20,689**	**4,405**	**24,040**
Total	18,025	195,601	20,364	232,833	20,860	259,186	21,574	292,489	23,970	322,100

Type of Bank	Premium Remitted					Ratio of Premium to Insured Deposits				
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
Commercial Banks	**1,140**	**1,436**	**1,830**	**2,344**	**2,892**	**0.73%**	**0.75%**	**0.87%**	**1.02%**	**1.13%**
Private Commercial Banks	997	1,300	1,651	2,123	2,624	0.67%	0.72%	0.83%	0.98%	1.10%
Specialized Government Banks	142	136	179	221	268	1.83%	1.43%	1.53%	1.53%	1.43%
Thrift Banks	**97**	**128**	**157**	**218**	**291**	**0.37%**	**0.46%**	**0.50%**	**0.53%**	**0.70%**
Savings & Mortgage Banks	64	83	111	100	138	0.36%	0.49%	0.61%	0.43%	0.59%
Savings & Loan Associations	10	13	19	23	28	0.26%	0.29%	0.35%	0.36%	0.40%
Private Development Banks	23	32	27	95	125	0.43%	0.52%	0.37%	0.85%	1.15%
Rural Bank	**28**	**37**	**50**	**66**	**82**	**0.22%**	**0.26%**	**0.30%**	**0.32%**	**0.34%**
Total	1,265	1,602	2,037	2,628	3,265	0.65%	0.69%	0.79%	0.90%	1.01%

*[illegible]

When the level of reserves commensurate to PDIC's risk exposure is achieved, adjustments in premium may be considered. Differentiated rates depending on several risk factors may also be implemented in the future

In contrast to the past where government participation in building up PDIC's financial resources is called upon, the Corporation aims to achieve financial independence where insurance funds are generated from resources mobilized by the system. PDIC aspires to achieve its long-term vision of returning the P3.0 billion government capital infusion when reserves have reached comfort levels.

Insurance Reserves

Provisioning for estimated insurance losses involves the appropriation of resources to meet future losses PDIC may incur from closure of banks. Estimation of reserves required to fully recover estimated insurance losses involves a methodology that includes an assessment of banks' condition with regard to their probability of closure and determination of estimated recoveries from liquidation of closed banks. Over the years, the methodology has undergone refinements in determining closure probability and assigning recovery rates.

Insurance losses as of yearend 1998 is estimated at P17.49 billion of which P16.78 billion is actually booked. This is 38.8 percent more than the 1997 provision of P12.09 billion and more than four times that of 1994 at P3.79 billion. Funds for estimated insurance losses are sourced from assessments levied against total deposits in member banks and income from investments, net of operating costs. As of yearend 1998, total insurance reserves consisting of the PIF, provisions for estimated insurance losses and retained earnings aggregated P20.05 billion, registering an increase of 30.9 percent from the previous year's P15.32 billion, and about three times higher than the 1994 level (Table 2.2). After deducting loans payable to BSP, net insurance reserves amounted to P15.76 billion. Ratio of net insurance reserves to yearend 1998 insured deposits increased from 3.9 percent in 1997 to 4.3 percent in 1998 and ratio of net insurance reserves to yearend 1998 total deposits increased from 0.8 percent to 0.9 percent

Table 2.2 INSURANCE RESERVES, 1994-1998
Yearend Position, Amounts in Million Pesos

ITEM	1994	1995	1996	1997	1998
Total Insurance Reserves	**6,949**	**9,051**	**11,799**	**15,320**	**20,052**
Permanent Insurance Fund	3,000	3,000	3,000	3,000	3,000
Estimated Insurance Losses	3,786	5,848	8,572	12,092	16,782
Retained Earnings	163	203	227	228	270
Less:					
Payables to BSP	**1,748**	**1,746**	**1,760**	**2,950**	**4,290**
Principal	1,521	1,671	1,671	2,846	4,171
Accrued Interest	227	75	89	104	119
Net Insurance Reserves	**5,201**	**7,305**	**10,038**	**12,370**	**15,762**
Total Deposits	**797,905**	**1,011,566**	**1,285,764**	**1,655,213**	**1,735,669**
Insured Deposits	**220,583**	**248,886**	**267,747**	**315,136**	**364,453**
Net Insurance Reserves to Insured Deposits (%)	2.36	2.94	3.75	3.93	4.32
Net Insurance Reserves to Total Deposits (%)	0.65	0.72	0.78	0.75	0.91

Notes.
1 Total deposits and insured deposits as of 31 December of the reference year
2 Deposit data refer to deposits in PDIC member banks excluding deposits in overseas branches of Philippine banks

Termination of Insured Status

In March 1998, PDIC terminated the insured status of Rural Bank of San Andres (Catanduanes) due to non-payment of insurance premium. The bank was subsequently closed by the Monetary Board in May of the same year. This brings the total number of banks terminated of their insured status to 38 since 1993 (Table 2.3). The seventeen (17) rural banks in Lanao del Norte and Lanao del Sur, non-operational since the 1970s/1980s and whose insurance status were terminated in 1993, were finally ordered closed in November 1998

Table 2.3 BANKS TERMINATED OF INSURED STATUS DUE TO NON-PAYMENT OF PREMIUM As of 31 December 1998

Name of Bank	Province	Termination Date		Status
		Effectivity	90th Day*	
Thrift Bank				
1 Panay Thrift Bank	Aklan	08- July-94	05-Oct-94	Closed - 09-Nov-94 [1/]
Rural Bank				
1. Integrated RB of Bindayan, Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
2. Islamic City of Marawi RB, Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1/]
3. RB of Butig Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1/]
4 RB of Calawi Bacolod Grande	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1/]
5. RB of Ditsaan Ramain, Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
6 RB of Ganassi, Inc.	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
7 RB of Greater Baloi, Inc.	Lanao del Norte	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
8 RB of Lumba Bayabao, Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
9. RB of Lumbatan, Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
10 RB of Malabang, Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
11 RB of Masiu Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
12 RB of Mulondo, Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
13 RB of Poona Bayabao. Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
14 RB of Pualas. Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1/]
15 RB of Tamparan. Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
16 RB of Taraka Inc.	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
17 RB of Tugaya, Inc	Lanao del Sur	27-Jan-93	27- Apr-93	Closed - 04-Nov-98 [1]
18 RB of Calintaan, Inc	Occ Mindoro	19-Mar-93	17-Jun-93	Closed - 14-May-93
19 RB of Lala, Inc	Lanao del Norte	19-Mar-93	17-Jun-93	Closed - 03-Jun-94 [1]
20 RB of Oas Inc	Albay	19-Mar-93	17-Jun-93	Operating [3]
21 RB of Roxas Inc	Palawan	19-Mar-93	17-Jun-93	Operating
22 RB of Camalaniugan Inc	Cagayan	02-May-93	31-July-93	Operating
23 RB of Polillo Inc	Quezon	02-May-93	31-July-93	Closed - 26-July-93 [2]
24 RB of Buug, Inc	Zamboanga del Sur	21-Dec -93	21-Mar-94	Closed -11-Mar-94 [2]
25 RB of Espiritu. Inc	Ilocos Norte	21-Dec -93	21-Mar-94	Closed - 01-Mar-95 [1]
26 RB of Balasan, Inc	Iloilo	08-Jul-94	05-Oct-94	Operating [4]
27 RB of Capiz. Inc	Capiz	08-Jul-94	05-Oct-94	Closed - 05-Oct -94 [2]
28 RB of Maayon Inc	Capiz	08-Jul-94	05-Oct-94	Closed - 05-Oct -94 [2]
29 RB of Patnongon, Inc	Antique	08-Jul-94	05-Oct-94	Closed -28-Sept-94 [2]
30 RB of Pontevedra Inc	Capiz	08-Jul-94	05-Oct-94	Closed - 05-Oct -94 [2]
31 RB of Sara Inc	Iloilo	08-Jul-94	05-Oct-94	Closed - 05-Oct -94 [2]
32 RB of Tayum. Inc	Abra	08-Jul-94	05-Oct-94	Closed - 05-Oct -94 [2/]
33 RB of Cabarroguis Inc	Quirino	11-Jan-95	10-Apr-95	Closed - 27-Aug-97
34 RB of Dolores, Inc	Eastern Samar	11-Jan-95	10-Apr-95	Closed - 29-Jan-97
35. RB of Tumauini, Inc	Isabela	11-Jan-95	10-Apr-95	Operating [3]
36. RB of Faire, Inc	Cagavan	17-Feb-96	19-May-96	Operating [4]
37 RB of San Andres Inc	Catanduanes	07-Mar-98	05-Jun-98	Closed - 12-May-98 [2]

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

Closed without insurance coverage	22
Closed with insurance coverage	[illegible]
Operating with application for reinstatement considered withdrawn	[illegible]
Operating with active application for reinstatement to membership	[illegible]
Total	38

CLAIMS MANAGEMENT AND RECEIVERSHIP AND LIQUIDATION

1998 proved to be the most intense and challenging year for PDIC as it continued to cope with its responsibilities as insurer of deposits and receiver/liquidator of closed banks The successive closure of multi-unit banks[3] starting June to October 1998 imposed heaviest demands on the limited manpower and resources of PDIC since 1985 (Table 3.1). To augment staff complement handling takeover and receivership of closed banks, other personnel of the Corporation were tapped for field work to implement Monetary Board closure orders and assist in the examination of deposits, and at the same time attend to queries and concerns of depositors. Contractual employees of the Land Bank Service Corporation (LBSC) were also hired to assist in receivership and deposit servicing activities although in some cases, LBSC did not have enough personnel in certain critical areas/provinces. Some closed bank employees were retained to assist in receivership activities. Because of the sensitive nature of bank records both LBSC contractual employees and closed bank employees were asked to sign confidentiality statements. Geographical clustering of bank branches during payoff operations was also done in the case of Unified Savings and Loan Association (Unisave) due to its large number of branches, but only after considering the proximity of designated payoff sites to Unisave branches

PDIC s sole mission prior to amendment of its Charter in 1992 was to provide insurance protection to depositors of member banks by paying depositors claims for insured deposits in the event of bank closure. PDIC processed and paid claims of depositors of 228 closed banks ordered closed between 1960 and 1988 with combined deposit liabilities amounting to P4.03 billion for about 4.6 million accounts. In 1989, however, the Corporation started to take on receivership/liquidation functions with the takeover of six rural banks. Between 1989 and 1992, PDIC assumed receivership and liquidation functions over 23 closed banks as well as handled claims processing and settlement of 49 banks closed during the same period With the amendment of its Charter in 1992, PDIC was made mandatory receiver/liquidator of all closed banks to relieve Central Bank of functions not relevant to monetary policy and bank supervision. By yearend 1996, a total of 231 banks were transferred from the BSP, with about 80 percent under liquidation for more than 10 years.

As of yearend 1998 373 banks were ordered closed by the Monetary Board. Of the total, 26 were rehabilitated, 15 are still under receivership/liquidation by the BSP, while 332 banks are under jurisdiction of PDIC (Table 3.2)

Takeover Operations

Upon closure order of a bank by the Monetary Board, PDIC as receiver takes over, manages and preserves the assets of the bank in trust for all creditors of the bank including its depositors and stockholders. PDIC succeeds to all rights and powers of the closed bank and has a fiduciary obligation to maximize recoveries for the bank's creditors and stockholders. All legal means are employed to gather assets, collect loans, and initiate suits to enforce claims or recoveries of the bank

Forty (40) banks were closed by the Monetary Board during the year, with closure orders implemented by PDIC in only 23 insured banks (Table 3.3) Of the 23 closed banks four were not able to service deposit withdrawals of depositors, of which one (Orient Bank) declared a bank holiday and another (RB Mainit) was non-operational for 17 months prior to closure. The remaining 17 banks

[3] Banks with at least one branch

Table 3.2 STATUS OF BANKS CLOSED BY THE MONETARY BOARD
Cumulative Yearend 1993-1998

	1993	1994		1995		1996		1997		1998	
	Total	Add/ (Deduct)	Total	Add/ (Deduct)	Total	Add/ (Deduct)	Total	Add/ (Deduct)	Total	Add/ (Deduct)	Total
TOTAL BANKS ORDERED CLOSED BY THE MONETARY BOARD	288		304		313		319		333		373
BANKS REHABILITATED	23	1 [a]	24	1 [a]	25		25	1 [a]	26		26
BANKS UNDER RECEIVERSHIP/ LIQUIDATION	265		280		288		294		307		347
Under PDIC	**96**		**181**		**270**		**278**		**292**		**332**
Under BSP	169		99		18		16		15		15
RECEIVERSHIP											
Under PDIC											
Direct takeover	4 [b]	16 [b]	20	9 [b] (11) [d]	18	6 [b]	24	14 [b] (25) [d]	13	23 [b] (28) [d]	8
Ordered closed by MB but not yet taken over by PDIC										17 [b, e]	17
Transferred from BSP	1		1	(1) [d]							
Total - PDIC	**5**		**21**		**18**		**24**		**13**		**25**
Under BSP	6	(3) [c]	3 [f]		3 [f]		3 [f]		3 [f]		3 [f]
Yearend total	**11**		**24**		**21**		**27**		**16**		**28**
LIQUIDATION											
Under PDIC											
Direct takeover	12		12	11 [d]	23		23	25 [d]	48	28 [d]	76
Transferred from BSP	79	3 [c] 66 [g]	148	80 [g] 1 [d]	229	2 [g]	231		231		231
Total - PDIC	**91**		**160**		**252**		**254**		**279**		**307**
Under BSP	163	(66) [g] (1) [a]	96	(80) [g] (1) [a]	15	(2) [g]	13	(1) [g]	12 [f]		12 [h]
Yearend total	**254**		**256**		**267**		**267**		**291**		**319**

From BSP [illegible] rehabilitated banks group
Closures [illegible] total of 89 banks closed from 1993 to 1998
Transferred [illegible] receivership to PDIC liquidation
From PDIC – [illegible] to liquidation
Access diff. [illegible] still not accessible for takeover
The Manila [illegible] Corporation, Triumph Savings Bank and RE Joi[illegible]
Transferred [illegible] from BSP to PDIC
Liquidation [illegible] BSP since liquidation is nearing completion

located [illegible] the Lanao provinces, have been non-operational since the 1970s/1980s but were ordered closed only in November 1998 (see Table 2.3 Banks Terminated of Insured Status Due to Non-Payment of Premium). Notices of closure were served to the officers of these banks through registered mail at their last known addresses informing them of respective closures and the appointment of PDIC as receiver.

Prior to closure, the Monetary Board approved the indefinite deferment of examination of these 17 rural banks. Last general examinations by BSP on some of these banks were conducted during the period 1982 to 1987. Insured status of these banks were terminated in January 1993 after PDIC was granted the power to terminate insured status of banks due to nonpayment of premium in 1992, with the passage in Congress of amendments to its Charter. In 1996, the Monetary Board authorized an examination of these banks to verify their status. In July 1998, BSP recommended to the Monetary Board to declare these rural banks insolvent on the basis of its findings. BSP was instructed to give the banks ten days from notice to show proof that they are still operating. With no response received from these banks, the Monetary Board ordered the closure of all 17 rural banks on 04 November 1998 and appointed PDIC as receiver.

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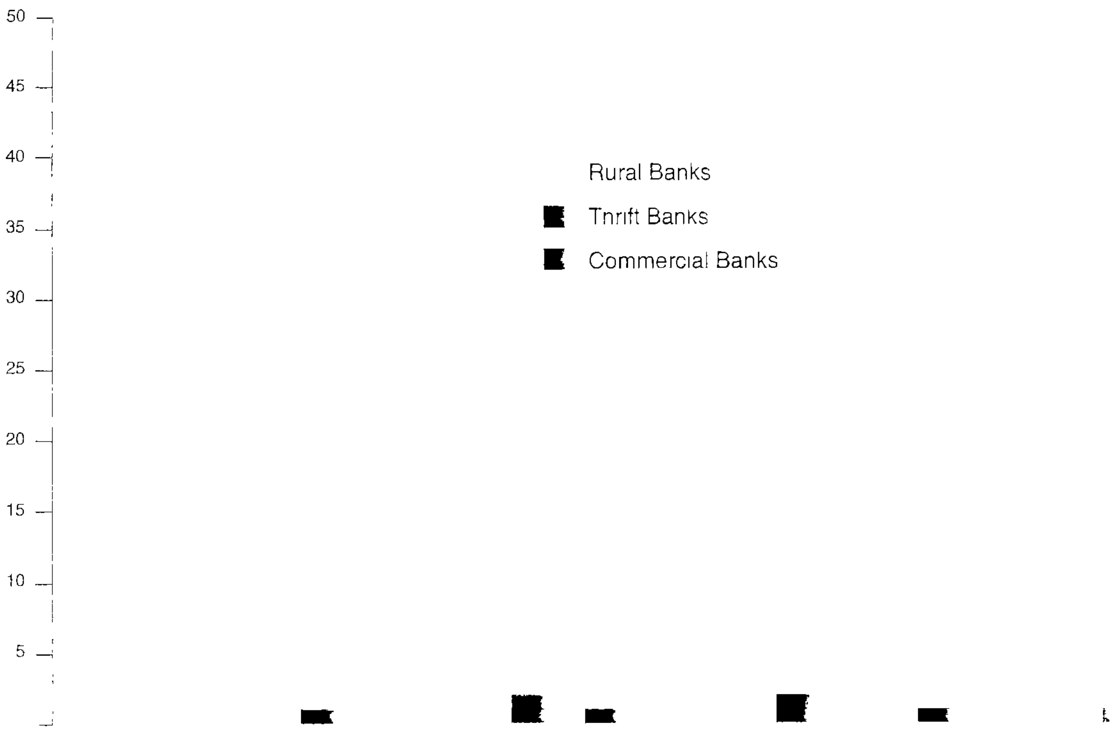


	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	
Banks ordered closed by Monetary Board	1	0	1	0	2	0	0	1	3	2	2	1	4	3	2	0	1	
Commercial Banks									1				1		1			
Thrift Banks					1				1	1			1					
Rural Banks	1		1		1			1	1	1	2	1	2	3	1		1	
Banks serviced/to be serviced		0	1	0	1	0	0	1	3	2	2	1	4	3	2	0	1	
Deposit Liabilities																		
Accounts			7,872		15			11	13,404	3,988	1,521	261	45,621	8,384	24 569	910	890	2
Amounts (in Million Pesos)			2 1		0 0			0 0	10 3	2 3	0 0	0 0	18 4	1 7	28 9	0 0	0 0	
Estimated Insured Deposits																		
Accounts			7,872		15			11	13,404	3,988	1,521	261	45,621	8,384	24,569	910	890	2
Amounts (in Million Pesos)			2 1		0 0			0 0	10 3	2 3	0 0	0 0	18 4	1 7	28 9	0 0	0 0	

Note

1. Generation of Registered Insured Deposits started only in 1991, thus prior to 1991 estimated insured deposits were assumed to be equal to deposit liabilities
2. Discrepancies between number of banks closed by Monetary Board and those serviced are due to any of the following:

	Year closed/number of bank
a. Banks with no deposit liabilities at closure	1960 1, 1964 1
b. Banks rehabilitated prior to start of claims settlement operation	1984 2
c. Bank deposit liabilities assumed by another bank	1965 1
Banks not covered by insurance at closure	1994 2, 1995 1, 1997 2, 1998 1

Banks serviced [illegible]

[illegible]

CLOSURES, 1960-1998

1960	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
22	**31**	**7**	**8**	**25**	**44**	**25**	**30**	**8**	**18**	**22**	**9**	**1**	**4**	**16**	**9**	**6**	**14**	**40**	**373**
					2		1											1	8
	–	2	1	16	6		3	2		2				1	1		1	6	49
22	2[illegible]	5	7	9	36	25	26	6	18	20	9	1	4	15	8	6	13	33	316
22	**31**	**7**	**8**	**22**	**43**	**25**	**30**	**8**	**18**	**22**	**9**	**1**	**4**	**14**	**8**	**6**	**12**	**23**	**345**
78,193	158 07[illegible]	66,223	165 179	554 339	2 695,152	115,582	594 856	25,809	37,086	136,171	39 795	4,975	6,438	43,860	12,340	9,503	21 820	168 534	5 074 794
12 8	45[illegible]	20 8	146 3	947 8	1,133 6	51 6	1,579 5	10 8	35 1	248 4	51 4	19 5	19 2	110 3	47 9	73 0	158 5	5,479 5	10 269 6
78,193	158,073	66,223	165,179	554,339	2,695,152	115,582	594,856	25,809	37,086	136,171	39,138	4,810	6,085	35,912	10 907	9,455	20,235	164,106	5,058 177
12 8	4[illegible] 4	20 8	146 3	947 8	1,133 6	51 6	1 579 5	10 8	35 1	248 4	50 9	18 9	18 9	87 4	42 3	69 4	152 1	2 533 4	7 283 7

Table 3.3 ***SELECTED DATA ON BANKS CLOSED BY THE MONETARY BOARD AND TAKEN OVER BY PDIC IN 1998***

Amounts in Million Pesos

	Closed Bank	Type/ # branches	Closure Date	Assets	Liabilities	Deposit Liabilities (DL)		Est. Insured Deposits (EID)		% of EID TO DL	
						Accounts	Amount	Accounts	Amount	Accounts	Amount
1	RB Sta. Catalina (Ilocos Sur)	RB/0	16-Jan-98	15.29	17.35	1,056	9.97	1,049	9.41	99.3%	94.4%
2	RB Rinconada (Camarines Sur)	RB/0	20-Feb-98	39.65	40.29	4,501	35.46	4,492	34.69	99.8%	97.8%
3	RB Salay (Misamis Oriental)	RB/0	23-Feb-98	13.85	33.35	2,635	4.54	2,310	4.03	87.7%	88.8%
4	RB Rosario (Agusan del Sur)	RB/0	2-Mar-98	0.61	3.10	1,648	0.91	1,515	0.84	91.9%	92.3%
5	Aklan Development Bank	TB/0	6-Mar-98	43.45	77.15	1,651	32.67	1,626	31.33	98.5%	95.9%
6	RB Central Mindanao (Cotabato)	RB/0	4-May-98	47.51	63.05	14,718	38.69	14,658	37.85	99.6%	97.8%
7	RB San Andres (Catanduanes)	RB/0	12-May-98	3.32	3.38	806	3.06	770	3.01	95.5%	98.4%
8	RB Lambunao (Iloilo)	RB/0	15-May-98	10.60	17.27	1,620	9.09	1,596	7.54	98.5%	82.9%
9	RB Dueñas (Iloilo)	RB/0	29-May-98	3.60	17.17	1,108	7.22	1,044	6.58	94.2%	91.1%
10	Commonwealth Savings and Loan Bank	TB/2	5-Jun-98	11.74	18.89	1,607	11.5	1,576	8.71	98.1%	75.7%
11	Dagupan City RB (Pangasinan)	RB/0	5-Jun-98	6.74	13.57	311	5.83	291	4.00	93.6%	68.6%
12	RB Sta. Margarita (Western Samar)	RB/0	5-Jun-98	3.44	5.52	560	4.01	540	3.44	96.4%	85.8%
13	RB Villaba (Leyte)	RB/1	15-Jun-98	35.74	37.83	4,105	17.85	3,205	14.77	78.1%	82.7%
14	Fortune Savings and Loan Association	TB/7	18-Jun-98	302.79	315.00	7,721	258.46	7,439	248.68	96.3%	96.2%
15	Community Savings and Loan Association	TB/1	19-Jun-98	174.63	220.91	6,103	167.78	6,087	165.34	99.7%	98.5%
16	Banco Rural del Oriente (Davao Oriental)	RB/2	14-Aug-98	111.14	125.60	9,492	102.81	8,719	97.01	91.9%	94.4%
17	Unified Savings and Loan Association	TB/32	3-Sep-98	1,135.02	1,406.97	53,418	1,024.96	53,418	953.25	100.0%	93.0%
18	RB Gerona (Tarlac)	RB/0	10-Sep-98	8.95	31.41	1,102	8.74	1,101	8.22	99.9%	94.1%
19	RB Mainit (Surigao del Norte)	RB/0	11-Sep-98	6.60	14.77	1,284	11.03	1,199	9.98	93.4%	90.5%
20	Orient Commercial Banking Corp	KB/51	15-Oct-98	2,553.43	6,153.56	49,446	3,570.08	48,051	834.81	97.2%	23.4%
21	Richmond Savings Bank	TB/3	15-Oct-98	498.70	1,215.42	1,663	147.38	1,462	42.76	87.9%	29.0%
22	RB Banga (South Cotabato)	RB/0	16-Oct-98	2.34	7.32	597	6.21	596	5.92	99.8%	95.3%
23	RB Surallan (South Cotabato)	RB/0	9-Nov-98	2.24	2.49	1,382	1.24	1,362	1.20	98.6%	96.8%
	Grand Total			**5,029.38**	**11,841.39**	**168,534**	**5,479.49**	**164,106**	**2,533.37**	**97.4%**	**46.2%**

Legend: KB - commercial bank TB - thrift bank RB - rural bank

PDIC took control of the assets, liabilities, records and affairs of 23 insured closed banks. Takeover operations in these banks were generally smooth except in two cases, Community Savings and Loan Association (Community SLA) and Orient Bank, which met resistance from stockholders and management. In both instances, owners filed civil cases against decision of the Monetary Board and petitioned for issuance of temporary restraining orders (TROs) against PDIC takeover. The owners claimed that the Monetary Board acted arbitrarily and with grave abuse of discretion amounting to lack or excess of jurisdiction. In the case of Community SLA, discussions were held with the bank management after expiration of the 72-hour effectivity of the TRO to persuade them to accept the decision of the MB and cooperate for smooth takeover of the bank. Having failed this, PDIC with assistance from local police and support of depositors forced open the main vault that secured important records and documents of the bank's head office. In the case of Orient Bank, the notice of closure served to bank management on 15 October 1998 was not accepted, and bank records and properties were not turned over to PDIC. With application for a TRO denied, takeover of records was finally effected on 27 October 1998 with the assistance of local government officials, with the use of force in some branches (Box 3.1).

Box 3.1 ORIENT COMMERCIAL BANKING CORPORATION

Orient Commercial Banking Corporation started to operate as a commercial bank on 01 October 1997 after acquiring license from the Monetary Board on 11 February of the same year. It was originally Batangas Capitol Development Bank when it started in 1969 under the group of Mr Jose Sermonia. In 1994, the bank was acquired by Mr Jose C. Go and was named Orient Development Banking Corporation. As a commercial bank, Orient Bank had 52 operating units, 23 of which were in Metro Manila.

After barely five months of operations as a commercial bank, Orient Bank unilaterally declared a bank holiday effective 14 February 1998 due to heavy withdrawals experienced as early as December 1997. Results of special examination made by BSP on Orient Bank as of 31 December 1997 disclosed, among others, the Bank's state of insolvency and illiquidity, and insufficiency of its realizable assets to meet its liabilities. Major violations committed by the bank include, among others, loans granted to directors, officers, stockholders and other related interests (DOSRI) which exceeded both single borrower and aggregate ceilings, and granting of dummy loans to evade procedural and reportorial requirements for DOSRI.

The Monetary Board instructed BSP to coordinate with PDIC in negotiating with investors for the Bank's rehabilitation. Several offers were received from universal banks, notably from Rizal Commercial Banking Corporation (RCBC) and Equitable Banking Corporation (EBC). These banks held meetings with BSP and representatives of Mr Go to discuss mode of acquisition of Orient Bank, an alternative that was totally abandoned. Another option considered was to divest Orient Bank's stockholders on a clean balance sheet basis in favor of RCBC, EBC, and a foreign investor. This also failed to materialize. PDIC committed to assist in the rehabilitation of Orient Bank but only up to the indicative level of financial assistance computed based on its least cost resolution policy estimated at P232 million, an amount insufficient to bail out Orient Bank. PDIC added that it cannot recommend a level of assistance without a thorough evaluation of the proposed rehabilitation plan, including adequacy of capital infusion required, assessment of capabilities of the incoming investors (e.g., their capability to meet commitments and possible future calls for additional infusion, strength in banking and ability to generate collateral businesses for the bank), as well as terms and conditions for such assistance to ensure attainment of rehabilitation targets. After options explored proved to be not feasible, the Monetary Board placed the bank under PDIC receivership on 14 October 1998, eight months after the bank declared a bank holiday.

Immediate inventory and turnover of Orient Bank's records and properties were not effected in most of the branches, especially in Metro Manila, due to non-cooperation of the Bank's officers. The Bank's Chairman even sought for the annulment of the Monetary Board closure order and petitioned for issuance of a TRO and/or preliminary injunction pending resolution of the petition which, however, was denied by the court. After eight working days of exercising maximum tolerance, PDIC decided to start forcible takeover of records and properties on 27 October 1998 after soliciting the assistance of the Mayor of Manila who deployed some of his staff as witnesses.

Orient Bank branches used three different computerized systems for deposits. With the refusal of bank officers to turn over bank records including the reference systems manuals, PDIC had to analyze data files and structures to create a system that will consolidate all computerized records for the bank's 42,362 depositors. Moreover, PDIC personnel were fielded in the branches for full seven-day work week to accept and process claims of depositors. To ensure payments do not exceed the P100,000 limit, lists of approved claims in the field were sent to PDIC by fax and verified against the consolidated masterlist of all depositors of Orient Bank.

Within one month from date of closure, PDIC started to pay claims of depositors of Orient Bank.

Claims Processing and Settlement

With numerous bank closures but limited PDIC manpower resources, compounded by TROs and complicated in some instances by records manipulated by owners and/or anomalous transactions, average turnaround time (TAT) to start claims settlement operations (CSO) from date of closure increased from an average of two months in 1997 to four months in 1998 (Box 3.2). Even before the preparation of reports on examination of deposits and generation of registers of deposits were completed, field staff were re-deployed to other closed banks. Large amount of time was also spent in verifying completeness and accuracy of bank records. This poor state of deposit records could be addressed if bank regulators could have access to these records while banks are still in operation. The Law on Secrecy of Bank Deposits is so pervasive in its restrictions that it even bars bank regulators like BSP and PDIC from examining deposit records to determine the true condition of banks. In the case of Orient Bank, lack of prior information on the various computerized systems adopted by the Bank and the resistance of bank officers to turn over bank records forced PDIC to explore other ways to generate necessary information on insured deposits required in payment of claims. In spite of problems encountered, payment of claims of depositors was started within one month from date of closure in consideration of the plight of the Bank's depositors who were denied access to their deposits for eight months when the bank went into a protracted bank holiday.

Box 3.2 PROBLEMS ENCOUNTERED IN EXAMINATION OF DEPOSIT RECORDS OF SELECTED CLOSED BANKS

Orient Commercial Banking Corporation
- Unfunded checks totaling P1.6 billion drawn against deposit accounts of the major stockholder's companies with the Bank
- Unfunded manager's checks totaling P545 6 million originating from withdrawals/ pretermination of deposits before the Bank declared a holiday

Aklan Development Bank, Inc.
- Misfiled and mislabeled transaction blotters
- No details of transactions for certificates of time deposit (CTDs) subsidiary ledgers (SLs)
- Creation of dummy time deposit accounts which caused discrepancies between SL and general ledger (GL) balances amounting to P0.09 million
- Splitting of twenty accounts aggregating P2 02 million verified to have originated from corporate account

Commonwealth SLB, Inc.
- Signature cards incomplete and in disarray

Fortune SLA, Inc.
- Records not updated and in disarray
- Splitting of deposits totaling P128 million or 51 percent of total unadjusted deposit liabilities as of bank closure

Community SLA, Inc.
- Missing SLs
- Splitting of deposits totaling 248 accounts aggregating P23 million or 14 percent of total unadjusted deposit liabilities as of bank closure, of the total, 156 accounts of various individuals worth P14 million originated from corporate accounts

Unified SLA, Inc.
- Splitting of deposits aggregating P460 million or 45 percent of total deposit liabilities

Richmond Bank
- Improperly secured bank documents, misfiled credit/debit memos and deposit/ withdrawal slips not updated signature cards
- Irregularities committed by bank management such as check kiting, diversion of bank funds, unremitted deposits and issuance of unfunded manager's checks amounting to P935 million

RB Sta Catalina (Ilocos Sur), Inc.
- SLs in disarray non-segregation of filled-up/closed accounts from outstanding accounts, these were also not accordingly stamped "filled-up ledgers" or "closed accounts", savings accounts registers not updated as to accounts that were opened/closed by the bank

RB Rinconada (Camarines Sur), Inc.
- SLs and signature cards in disarray, missing proofsheets teller s blotters deposit withdrawal slips
- Questionable CTDs aggregating P600 thousand under the name of principal owners of the Bank which originated from allegedly lost CTDs of Naga Regional Development Bank (NRDB) formerly owned by same individuals Original CTDs of NRDB were verified to be still in NRDB s possession.

RB Salay (Misamis Oriental), Inc.
- SLs in disarray, closed accounts mixed with outstanding accounts, not updated signature cards

RB Central Mindanao (Cotabato), Inc.
- Poor safekeeping/filing of SLs i e , filled-up and closed SLs mixed with outstanding deposit accounts, SLs of dormant accounts not segregated from the SLs of active accounts
- Questionable transactions include (a) simulated capital infusion, (b) erroneously closed outstanding/legitimate deposits in the Bank s records; (c) unfunded deposits recorded in the names of non-existent individuals

RB Dueñas (Iloilo), Inc.
- Improperly maintained proofsheets; signature cards not updated, non-segregation of closed accounts from active accounts
- SSS, PAG-IBIG premiums and ECC contributions of the bank employees deposited in the account of the previous owner of the bank

Dagupan City RB (Pangasinan), Inc.
- No year of transaction indicated on SLs entries

RB Sta. Margarita (W. Samar), Inc.
- Discrepancy between SL and GL balances by P136 thousand due to withdrawals made by the bank s former savings bookkeeper on legitimate accounts of depositors
- Creation of fictitious deposit with unadjusted balance of P3,699 89

RB Villaba (Leyte), Inc.
- Non-segregation of filled-up ledgers of outstanding savings accounts from ledgers of closed accounts, not updated signature cards

Banco Rural del Oriente (Davao Oriental), Inc.
- Delayed recording at the liaison office which ranged from four days to one month until the supporting documents (e.g , duplicate copies of CTDs deposit slips, etc) were forwarded to home office
- Funding for the placement of 33 CTDs aggregating P3 million in Lupon Branch deficient by P0 134 million
- 62 CTDs aggregating P6 million funded by withdrawals/ terminations of various deposits of the bank president

RB Banga (South Cotabato), Inc.
- Incomplete SLs, proofsheets, deposit/withdrawal slips and debit/credit tickets non-segregation of SLs of active accounts from SLs of dormant accounts, basic information from SLs indiscernible due to decomposition of documents

RB Surallah (South Cotabato), Inc.
- Discrepancy between SL and GL balances by P359 thousand or about 29 percent of total deposits

To improve efficiency in takeover of banks and settlement of claims for insured deposits, the Corporation has established linkages with local governments and law enforcement agencies to help in dissemination of information on schedule for acceptance and payment of claims for insured deposits and maintaining order in servicing depositors. In some cases, mayors even allowed establishment of payoff sites in municipal halls or other local government facilities. They likewise agreed to a special arrangement for free notarization of documents required to support depositors' claims for insured deposits, particularly in cases where the amount of insured deposits involved does not exceed P1,000.

Deposits affected by the closure of 23 insured banks amounted to P5.48 billion for 168,534 accounts, accounting for less than one percent of the total deposits in the Philippine banking system. About 46.2 percent of deposit amount and 97.4 percent of accounts are estimated to be fully insured. A lag usually occurs from bank closure when depositors are required to file claims after PDIC has generated the list from which claims of depositors will be based/established (Box 3.3). Valid claims were immediately paid, while those filed with insufficient documents were temporarily lodged under pending claims until claimants submit necessary requirements to complete their claims.

Box 3.3 DOCUMENTARY REQUIREMENTS IN FILING CLAIMS FOR INSURED DEPOSITS

All depositors of closed banks are required to file claims for their insured deposits within 18 months after bank closure or within the prescribed period as announced by PDIC through newspapers and posters in the vicinity of the closed banks. Claimants can secure their claim forms for free from PDIC representatives present at the premises of the closed bank or the claims counter at the PDIC office at 2228 Chino Roces Avenue, Makati City. Together with the claim forms, the claimants are required to submit the following before their claims can be processed and paid:

Proof(s) of deposit: Original savings passbook
Original certificate of time deposit
Latest bank statement and unused checks

Valid identification card(s)/document(s): company ID, passport, professional license, driver's license, postal ID, school ID, senior citizen's ID

Additional documents shall be required by PDIC depending on the type of account ownership:

For custodial accounts (i.e., "By" and "In Trust For")

1. If principal depositor is of legal age
   a. If principal depositor files the claim - Affidavit of Ownership and valid ID
   b. If depositor's agent (who opened the account and whose signature appears in the records of the bank) files the claim - Special Power of Attorney from principal depositor and valid ID
2. If principal depositor is a minor and the agent files the claim
   a. Birth certificate of the principal depositor
   b. If agent is not the parent of the principal depositor - Affidavit of Guardianship or Affidavit of Circumstance

For joint accounts (i.e., "and/or", "and", "or")

1. Co-depositors are both of legal age
   a. One of the co-depositors may file the claim provided that he submits an affidavit stating that his co-depositor/s is/are still living, otherwise
   b. All co-depositors are made to sign the claim form
2. One of the co-depositors is a minor - same requirement as no. 2 for custodial accounts

For corporations

a. Certificate of Registration with the Securities and Exchange Commission (SEC)
b. Duly notarized Secretary's Certificate of Adoption of Board Resolution re Person/s authorized to sign documents in claiming for and receiving payment of insured deposit/s
c. List of incumbent officers of the corporation

For duly registered general partnerships

a. Certificate of Registration with SEC and
b. Duly notarized Partner's Resolution re Person/s authorized to sign documents in claiming for and receiving payment of insured deposit/s

For single proprietorships

a. Certificate of Registration with the Bureau of Domestic Trade and Industry and the approved application form and
b. Municipal license

For unregistered associations

a. Duly notarized Secretary's certificate re Adoption of resolution designating the person/s authorized to sign documents in claiming for and receiving payment of insured deposit/s
b. List of incumbent officers of the association

For dissolved corporations/partnerships/associations

a. Certificate or Order of Dissolution issued by SEC, or
b. Order of Dissolution by the court

In special cases, PDIC will require the following:

For claims on account of deceased depositors

1. Accounts with insured deposits not exceeding P5,000
   a. Death certificate of the deceased depositor
   b. Duly notarized Deed of Undertaking with Power of Attorney (stating therein that PDIC will be held free and harmless from any claim that may be filed by other heirs of the deceased or third person)
   c. Where applicable, photocopy of birth certificates of the children and/or marriage contract
2. Accounts with insured deposits exceeding P5,000
   a. Death certificate of the deceased depositor
   b. Deed of Extra-Judicial Partition of the estate of the deceased depositor or Affidavit of Self-Adjudication if the claimant is the only heir, and proof of publication of such document at least twice in a newspaper of general circulation or Letter of Administration/Testamentary duly certified by the Clerk of Court and a certified order of the court authorizing the gathering of the estate which includes the insured deposit/s
   c. BIR clearance or estate tax clearance
   d. Where applicable, photocopy of birth certificates of the children and/or marriage contract

For depositors of banks with deficient records

1. No signature card
   a. For an individual account - Affidavit of Ownership, valid ID with specimen signature
   b. For an "and/or" account - Joint Affidavit of Ownership, valid IDs of all co-depositors with signatures appearing in the IDs. All co-depositors are required to sign the claim form. If the signatures on claim form tally with signatures on the affidavit and IDs, filing of the claim by only one of the co-depositors is allowed. If there are discrepancies in the signatures, all co-depositors are required to appear before the Claim Agent to file the claim.
2. For "and/or" accounts where not all co-depositors have specimen signatures on the signature card - Joint Affidavit of Ownership, valid IDs of all co-depositors with signatures appearing on the IDs
3. For discrepancies with regard to depositor's name appearing on the evidence of deposit, signature card and other bank records - Affidavit of Ownership or Affidavit of two disinterested persons attesting to the identity of the depositor

PDIC served claims payment in 132 closed banks which included 20 closed banks that started claims settlement operations during the year. Total payments made amounted to P1 13 billion for 38,155 accounts of which P2.05 million were final taxes withheld by PDIC on interest income on insured deposits and remitted to BIR. Of the 20 banks, 18 were closed in 1998 and 2 in the last quarter of 1997. Six of 20 banks were multi-unit and 14 were single-unit, of which one has 23 affiliated savers clubs (not licensed bank branches) Payments in these 20 closed banks amounted to P1.11 billion for 36,624 accounts. This represents 45.9 percent of the estimated amount of insured deposits of P2.42 billion and 22.3 percent of estimated number of accounts of 164,166 Payment of insured deposits in 1998 was significantly higher than total payments in 1997 of P73 05 million for 4,060 accounts.

Cumulative payments of insured deposits reached P4.52 billion as of 31 December 1998 involving 1.2 million accounts in 328 closed banks, of which P3.94 million represents final withholding taxes on interest paid on insured deposits (Table 3.4) The 328 closed banks serviced do not include the following eight banks serviced by PDIC out of funds appropriated under RA 5517, two banks with no deposit liabilities as of closure, three banks rehabilitated prior to start of claims settlement operations, one bank where deposit liabilities were assumed by another bank, 22 banks closed without deposit insurance cover.

Table 3.4 DEPOSITS IN CLOSED BANKS AND CLAIMS SERVICING
Cumulative Yearend 1994-1998, Amounts in Million Pesos

		1994		1995		1996		1997		1998	
CLOSED BANKS SERVICED		274		287		296		308		328	
DEPOSIT LIABILITIES	Accounts	4 795,106	100 0%	4 834,172	100 0%	4 849 540	100 0%	4,861,624	100 0%	5,028,382	100.0%
	Amount	4 392 34	100 0%	4 496 51	100 0%	4 596.53	100.0%	4 697 80	100 0%	9 418 60	100 0%
DEPOSITS CLAIMED	Accounts	1,199,413	25.0%	1,204,791	24 9%	1,215 094	25 1%	1,219 486	25.1%	1,273,374	25 3%
	Amount	3 864 00	88 0%	3,725 77	82 9%	3,863 80	84 1%	3 953 10	84 1%	6,465 80	68.6%
Payment of Insured Deposits	Accounts	1,134,118	23.7%	1,144,632	23 7%	1,154,079	23 8%	1 158,139	23.8%	1,196,294	23.8%
	Amount	3 175 05	72 3%	3.240 93	72 1%	3 310 53	72 0%	3,384.85	72.1%	4,516.65	48 0%
Paid to Depositors	Amount	3,175 05	72 3%	3,240 93	72 1%	3,309 91	72 0%	3,382 96	72 0%	4,512 71	47 9%
Wthheld taxes remitted to BIR	Amount					0 62	*	1 89	*	3 52	*
Wthheld taxes to be remitted to BIR	Amount							0 00011	*	0 42	*
Pending Claims	Accounts	31 795	0 7%	32,830	0 7%	33,704	0.7%	34,455	0 7%	49,830	1 0%
	Amount	175 93	4 0%	179 44	4 0%	256 86	5 6%	267 18	5.7%	1,619.51	17 2%
Claims for deposits in excess of statutory limit, subject to offset, denied or withdrawn	Accounts	33 500	0 7%	27 329	0.6%	27,311	0.6%	26,892	0 6%	27,250	0 5%
	Amount	513.02	11 7%	305 40	6.8%	296 40	6 4%	301 06	6 4%	329.70	3 5%
UNCLAIMED DEPOSITS	Accounts	3,595,695	75 0%	3,629,381	75 1%	3,634,446	74 9%	3,642,138	74 9%	3 755,008	74 7%
	Amount	528 35	12 0%	770 75	17 1%	732.74	15 9%	744 71	15 9%	2,952 74	31 4%

Note Percentages represent share to deposit liabilities accounts amounts * represents percentages less than 0.01

In 196[illegible] Congress created a special fund of P15 million for the depositors of eight uninsured banks ordered closed in 1969 for payment of deposits up to the maximum limit of P10,000 per depositor.

and nine banks which have yet to start claims settlement operations.

Claims for 49,830 accounts amounting to P1 62 billion remain unsettled as of 31 December 1998 (Table 3.5). Referred to as pending claims, these are divided into three groups. The first group representing 24.7 percent involves claims approved for payment but not yet claimed despite notice sent to depositors The second group involves claims filed with incomplete documentation. Claimants in this group have been advised to submit specific documents to complete their claims This represents 53 9 percent of the total pending claims The third group refers to claims involving legal issues to be resolved and/or accounts requiring further verification.

Asset Administration, Recovery and Disposal

Although total number of closed banks under PDIC administration as of yearend 1998 is 332, only 315 have been actually taken over by PDIC Of the 315 closed banks, 207 have remitted funds in excess of operational requirements for receivership/liquidation undertakings, while the remaining 108 either have no or insufficient funds to cover liquidation expenses incurred by BSP/Central Bank-Board of Liquidators and PDIC in carrying out receivership/liquidation operations. Excess funds are invested by PDIC in government securities.

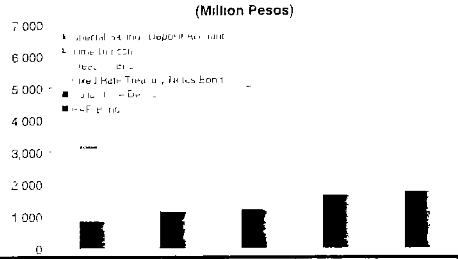
Funds being managed by PDIC for the closed banks have increased from P3.20 billion as of yearend 1994 to P6.62 billion as of yearend 1998. Of the total, P4 86 billion or 73 4 percent are in peso-denominated government securities, P1.71 billion or 25.8 percent are in dollar time deposits, and P0 05 billion or 0.8 percent are in Philippine Collateralized Interest Reduction Bonds or PAR Bonds. Funds are placed mainly in longer instruments to maximize yields, with modest amounts in shorter instruments to coincide with funding requirements of closed banks. Earnings from the funds managed by PDIC totaled P3 18

Table 3.5 PENDING CLAIMS
Cumulative Yearend 1994-1998, Amounts in Million Pesos

STATUS		1994		1995		1996		1997		1998	
			% 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	11,379	35.8%	11,392	34 7%	11 464	34 0%	12,052	35 0%	12,323	24 7%
	Amount	5 06	2.9%	5.26	2.9%	5 60	2.2%	5 97	2 2%	9.01	0 6%
AWAITING DEPOSITORS TO SUBMIT DOCUMENTS NECESSARY TO COMPLETE THEIR CLAIMS. Depositors have been notified of the required documents	Accounts	14,517	45 7%	16,056	48 9%	14 614	43 4%	12 121	35.2%	26,881	53 9%
	Amount	95.51	54.3%	96 83	54 0%	126 72	49 3%	88 93	33 3%	1,410.16	87 1%
AWAITING RESOLUTION OF LEGAL ISSUES/ VERIFICATION OF DEPOSITS CLAIMED	Accounts	5 899	18 6%	5 382	16 4%	7,626	22 6%	10,282	29 8%	10,626	21.3%
	Amount	75 36	42 8%	77.35	43 1%	124.54	48.5%	172 28	64 5%	200.34	12 4%
TOTAL	Accounts	31 795	100%	32 830	100%	33,704	100%	34 455	100%	49,830	100%
	Amount	175 93	100%	179 44	100%	256.86	100%	267 18	100%	1,619 51	100%

Note Excludes 366 claims filed which involve either competing claims (179 accounts worth P1 54 million) or accounts not in masterlist of deposits ([illegible] accounts worth P109 5[illegible] million) billion from 1993 to 1998, of which P671 million was earned in 1998 alone (Chart 3.0).

Chart 3.0 FUNDS OF BANKS UNDER RECEIVERSHIP AND LIQUIDATION
(Million Pesos)



	1994	1995	1996	1997	1998
Special Savings Deposit Accounts	-	10 43	19 95	-	-
Time Deposits	107 53	-	-	-	-
Treasury Bills	2 243 50	280 73	19 45	63 78	35 51
Fixed Rate Treasury Notes/Bonds		2,991 12	3 808 66	4 173 70	4 829 56
Dollar Time Deposits	817 73	1 106 45	1,165 26	1,601 93	1 706 39
PAR Bonds	30 5	31 25	32 18	50 62	50 45
Total	**3 199 26**	**4 419 98**	**5,045 50**	**5 890 03**	**6 621 91**

Recoveries for 1998 totaled P100.12 million or 55.7 percent lower than last year's P226 14 million. Of the total, loan collection accounted for P63.05 million These loan recoveries resulted from compromise settlements involving condonation of penalties and/or reduction of contractual interest rates, which are at times way above market rates A total of P32.70 million was realized from disposal of real and personal properties through public bidding and negotiated sales, P3.70 million from rental fees and P0.67 million from other sources such as interest earnings on savings accounts maintained by the individual closed banks for its working cash funds

For 1998, closed banks paid a total of P142.28 million in taxes to the government Of the total P138 16 million was remitted to the Bureau of Internal Revenue in the form of withholding taxes on investments, sale of real estate properties, wages, service contracts rental fees and withholding tax collections of one closed bank not remitted prior to its closure, and P4 12 million in real estate and transfer taxes paid by closed banks to local government units

Asset Distribution

Unresolved issues on priority of credit claims emanating from advances from and rediscounting obligations to the BSP as well as foreign obligations of closed banks due to Asian Development Bank/World Bank that had to be assumed by the government impeded progress in distribution of assets. Aggravating this situation are special laws granting preferred treatment to Land Bank and Development Bank of the Philippines as far as their loans to closed banks are concerned. To date, partial distribution has been made for eight banks and termination plans for two banks have been approved by their respective liquidation courts after initiatives in 1995 to hasten liquidation process.

During the year, P12.36 million was paid to 36 creditors who filed their claims with ten banks (Table 3.6) This brings total payments to creditors as of yearend 1998 to P336.04 million involving 1,504 of the 1,979 creditors who filed claims.

Table 3.6 BANKS WITH LIQUIDATION COURT-APPROVED DISTRIBUTION PLANS
Amounts in Million Pesos

	Payments for 1998		Payments as of 31 Dec 1998	
	# of creditors	Amount	# of creditors	Amount
Final Liquidation				
RB Natividad	-	-	1	0 01
RB Kiblawan	-	-	-	-
Sub-total			**1**	**0.01**
Partial Liquidation				
Pacific Banking Corporation *	18	0 17	1,359	248 98
Banco Primero Development Bank	1	10 61	51	67 95
Fidelity Savings	1	0.36	29	3 02
Island Savings and Loan Bank	15	0 91	59	5 15
RB San Pedro			2	9 82
RB Obando	1	0 31	1	0 31
RB Tavug			1	0 44
RB Villasis			1	0.36
Sub-total	**36**	**12.36**	**1,503**	**336.03**
Total	**36**	**12.36**	**1,504**	**336.04**

* Includes labor claims per liquidation court-approved compromise agreement in 199[illegible]. As of yearend 1998, a total of P16.9[illegible] million has been paid to 1,122 former bank employees

Distribution of assets is also hampered by the pendency of court cases on classification of creditors' claims. such as that filed by the foreign investors of the closed Pacific Banking Corporation (PaBC) for payment of their capital investment in the amount of US $2.53 million. The claim of these foreign investors was accorded a "preferred creditor" status by the liquidation court resulting in the garnishment of PaBC's accounts with the Land Bank of the Philippines and the Philippine National Bank (Box 3.4).

As a major creditor of closed banks. PDIC filed claims with the liquidator of closed banks for subrogated deposits or the insured deposits PDIC paid to depositors. For 1998, claims for subrogated deposits were filed against 79 closed banks amounting to P150.89 million. This consists of claims amounting to P118.94 million which were filed for the first time against 21 closed banks; and additional claims amounting to P31.94 million were filed against 58 closed banks. This brought the total claims filed for subrogated deposits to P3.39 billion against 310 closed banks

Subrogated deposits recovered as of yearend 1998 amounted to P181.09 million, representing settlement of claims filed with 34 closed banks No recoveries were made during the year since distribution plans could not be finalized due to unresolved issues on classification of creditors claims

Box 3.4 GARNISHMENT OF PACIFIC BANK'S FUNDS

A group of Singaporean nationals filed claims for recovery of their alleged equity investment in the Bank in the amount of US $2 53 million with the Regional Trial Court of Manila. Branch 31, the Liquidation Court of PaBC Despite the opposition from PDIC as PaBC Liquidator the Liquidation Court allowed payment of the claim in its Order dated 11 September 1992 and accorded said claim a "preferred creditor" status An appeal was made by PDIC against the Order but this was denied by the Liquidation Court for having been filed beyond the 15-day reglementary period Immediately, a writ of execution was issued and the PaBC accounts in the Land Bank of the Philippines (LBP) and Philippine National Bank (PNB) were garnisheed with ease The Court of Appeals sustained the lower court's decision on the finality of the Order PDIC elevated the decision to the Supreme Court on certiorari While the Supreme Court reversed the Court of Appeals' decision on the issue and sustained PDIC's position that appeal from an Order of the Liquidation Court should be within 30 days and not 15 days, the Supreme Court however, ruled that the 11 September 1992 Order has already attained finality because PDIC allegedly failed to perfect its appeal due to non-filing of the Record on Appeal

PDIC filed a motion for reconsideration of the decision of the Supreme Court and argued that a record on appeal was filed as borne out by the records of the subject case On the merits, PDIC likewise argued that the lower court and the Court of Appeals erred in the interpretation of Article 42 of the Omnibus Investments Act which states that a foreign investor's right to a repatriation of his investment extends only to "proceeds of liquidation of the investment" Motion for reconsideration was denied by the Supreme Court, and thus, the Singaporeans' attorney-in-fact, Gonzalo Sy, and the court sheriff immediately executed the September 1992 order of the lower court. After a series of court orders and threats of arrest of its president, LBP released P82 66 million representing the peso equivalent of the Singaporeans' claim allegedly amounting to US $2 53 million, net of previous releases of P14 12 million

CB-Board of Liquidators BSP and BIR, major creditors of PaBC, joined PDIC in a motion filed with the Liquidation Court to prevent Gonzalo Sy from withdrawing the funds after he deposited the money to his account with LBP, and to return the amounts withdrawn as well as funds received earlier in satisfaction of the September 1992 Order This motion, however, was denied by the Liquidation Court on 12 May 1998 Worse, the Liquidation Court directed PDIC to pay interest at the rate of 12 percent per annum on the principal claim from 15 October 1981 until paid even as the Order (11 September 1992) sought to be implemented does not direct the payment of interest and the absence of a motion formally filed praying for the imposition of interest With the assistance of Atty Rene A V Saguisag, the Liquidation Court's Order was elevated to the Court of Appeals As of 05 June 1998 the Singaporean's attorney-in-fact the sheriff and Judge Reyes of the Liquidation Court were restrained from further implementing the questioned 12 May 1998 Order, and on 14 September 1998 the Writ of Preliminary Injunction was issued by the Court of Appeals upon filing of surety bond of P100 000

The Court of Appeals has yet to decide the petition on the merits.

Table 3.7 CLAIMS FOR AND RECOVERY OF SUBROGATED DEPOSITS
Cumulative Yearend 1994-1998. Amounts in Million Pesos

	1994		1995		1996		1997		1998	
	No of banks	Amount	No of banks	Amount	No of banks	Amount	No of banks	Amount	No of banks	Amount
Subrogated Deposits	**274**	**3,175.05**	**287**	**3,240.93**	**296**	**3,310.40**	**308**	**3,385.09**	**328**	**4,516.65**
A Claims filed by PDIC against the closed banks	240	2,237.90	266	2,284.97	273	2,309.00	289	3,241.68	310	3,392.57
B Claims not yet filed	34	937.15	21	955.96	23	1,001.40	19	143.41	18	1,124.08
Recoveries on Claims Filed	**27**	**159.49**	**30**	**163.49**	**32**	**170.68**	**34**	**181.09**	**34**	**181.09**
A Partial Recovery	1	-	1	-	2	4.95	4	15.02	4	15.02
B Full Recovery	26	159.49	29	163.49	30	165.73	30	166.07	30	166.07
Claims filed but not yet recovered	**213**	**2,078.41**	**236**	**2,121.48**	**241**	**2,138.32**	**255**	**3,060.59**	**276**	**3,211.48**
Ratios										
Recoveries to Subrogated Deposits		5.0%		5.0%		5.2%		5.3%		4.0%
Recoveries to Total Claims Filed		7.1%		7.2%		7.4%		5.6%		5.3%

Note Subrogated deposits represent insured deposits paid which consists of payments made to depositors including US $ deposit accounts converted to Philippine pesos for accounting purposes and taxes remitted/to be remitted to BIR.

SUPPORT INFRASTRUCTURE

Corporate Planning and Monitoring

To ensure efficiency in its delivery of services the Corporation conducts an annual planning exercise assessing its performance vis-a-vis current situation and requirements in the banking industry and formulates strategies towards attainment of set objectives The need for performance assessment and corresponding refinement in strategies and adjustment of priorities is made more evident with the stresses and risks banks face arising from the regional financial crisis The annual planning exercise provides opportunity for PDIC staff to actively participate in the determination of activities to meet set goals, resulting in awareness and better understanding of the identified priorities of the Corporation

In contrast to previous years the planning exercise for 1999 was synchronized with the budget preparation process Corporate goals for 1999 were identified and priority activities formulated together with corresponding budgetary requirements To keep track of the performance of the Corporation on a regular basis, accomplishments on identified corporate priorities are monitored on a quarterly basis, supported with monthly indicators on status of activities of the various operations and support groups.

In addition to monitoring corporate performance the Planning Center is also responsible for the preparation of various reports required of the Corporation The Planning Center also prepares short researches on prevailing issues, as well as regularly gathers, compiles and generates relevant data to update management and operations group on broader aspects of developments in the economy.

Client Services and Public Information

PDIC, through its Client Services and Information Center (CSIC), continues to give priority attention and assistance to depositors through information and education

During the year in review, the Depositors Assistance Bureau (DAB under the CSIC received 716 cases, involving inquiries on both operating and closed banks Majority of the cases received involving operating banks were complaints on unserviced withdrawals and ATMrelated problems (e.g. undispensed cash and captured cards), and inquiries on deposit insurance coverage and insurance status of banks. Cases received regarding closed banks involved follow-up on claims filed, schedule of pay-off, inquiries on how to claim deposits in excess of P100,000 insurance cover, and request for availment of emergency pay-out facility. Of the total number of cases filed at DAB, 702 were satisfactorily attended to by the Bureau. The remaining cases were referred to the banks concerned and BSP for appropriate action, where BSP initiated examination some of which led to bank closure.

Intensified client education and information dissemination were carried out during takeover and claims settlement operations, utilizing national and local radio, television stations, and newspapers which granted gratis public service announcements, as well as traditional information media such as posters and public address system. On-air radio interviews were made where information personnel explained to the public, particularly depositors, their rights and provided information on servicing of claims (e.g. schedule, procedures and requirements in filing claims). Due to limited manpower, CSIC shifted from team deployment to single deployment of information personnel in the latter part of the year. Thirty-eight teams carried out education and information dissemination campaigns in 16 banks during takeover operations (TO), including seven closed banks with branch offices, while 29 teams were deployed in 13 banks and three branch offices to assist depositors during claims settlement operations (CSO). The intensified information dissemination heightened the awareness of depositors and contributed to the high turnout of depositor claimants during the year.

Local radio stations which provided support to PDIC through gratis public service announcements of closures and takeovers of banks and servicing of claims were DXDA Radyo Natin and San Francisco Radio in Agusan del Sur, DXLX, DXCL, DXQR, Bombo Radyo, DXWZ-FM and ABS-CBN in Misamis Oriental, DYKR, DYIN and DYRU in Aklan, DYVL, DYVW and Bombo Radyo in Tacloban; DXUM, Radyo Ukay, Radyo ng Bayan and RGMA Network in Davao, and DWRS, DZVV and DZNS in Ilocos Sur. Other stations were DYFM Bombo Radyo in Iloilo, DZVC-AM and DZAA-FM in Catanduanes, DYDD and DYRR in Leyte, and DZTP-AM, Radyo Natin, DZVV-AM and DWRS in Candon, Ilocos Sur, and DZBR and DZAM in Batangas. ABS-CBN TV in Dagupan, GMA-7 in Tacloban, TV Patrol and IBC TV-13 in Davao also granted gratis TV exposure of PDIC announcements. Local newspapers which granted free space for PDIC announcements were the Catanduanes Tribune, Candon News (Ilocos Sur), Sunday Punch (Dagupan), Sunstar (Batangas), Panay News and Sun Star (Aklan), Daily Mirror (Davao), and Timek Ti Amianan (Ilocos Sur). Local government officials, parish churches, barangay officials, and non-government organizations also provided assistance by informing their constituents about PDIC operations.

National media likewise provided public service support by accommodating gratis TO and CSO announcements. These include the Manila Bulletin, Philippine Post, Malaya, Manila Standard, Today, Philippine Star, Tempo, Businessworld, Philippine Daily Inquirer, RPN 9, PTV 4, ABC 5, GMA Network, Sarimanok Network News, ABS-CBN, DZRH, DZBB, DWFM-FM, DWLS-FM, DWDM-FM, DWKC-FM, DZMM, DWRX-FM, DZMB-FM, DWLL-FM, DWRR-FM, and DZXL.

Information Technology

As part of the program to further enhance handling and processing of information, the Corporation spent a total of P2.8 million in 1998 for the purchase of various licensed computer software, taking advantage of the opportunity provided by Microsoft to the Philippine Government for the purchase of licenses at preferential rates. A total of 246 licenses of Office 97, 247 Windows NT Client Access Licenses and 2 licenses of Windows NT Server were acquired during the year. Office 97 and Windows 95 were made the standard software for desktop and notebook computers and Windows NT for servers

Problems encountered in takeover operations in four closed banks with computerized systems required new procedures for handling computer-based data Procedures had to be set up to secure data and ensure their integrity before use in producing reports needed for claims and receivership operations. Templates were designed so that necessary information from the different systems used by these banks could be processed by a standard program.

As a safeguard against the millennium bug problem, the Corporation continued its work on the year 2000 compliance project which started in November 1997. The project covered compliance of hardware, software, application systems and building facilities. Resource speakers from a major computer manufacturer were invited to discuss the effect and implications of the millennium bug, including solutions, e.g., replacement or upgrading of existing systems. Hardware systems were verified using testing programs for year 2000 compliance from manufacturers or from the Internet. Non-compliant hardware have been scheduled for replacement or will be relegated to non-date sensitive tasks On the other hand, certifications from software manufacturers and various independent testing centers were obtained Actual tests were performed, with non-compliant software recommended for upgrading For application systems, two approaches were identified: windowing solution and replacement Windowing solution defines a 100-year reference which will allow affected systems to interpret dates correctly beyond year 2000 Meanwhile, for replacement of two non-compliant software systems, services of a software development company was tapped to replace the Bank Performance Monitoring System, while a packaged software will be used to replace the existing Accounting System All software systems modification work have been completed by yearend and reported to the National Computer Center Presidential Commission on Year 2000 Compliance and the Presidential Management Staff

Building facilities were confirmed with respective manufacturers for compliance, supplemented with in-house verification Confirmations with institutions handling investments of PDIC were also made to ensure that their computer systems are compliant to safeguard the placements and investments of the Corporation against the consequences of the millennium bug

Legal Affairs

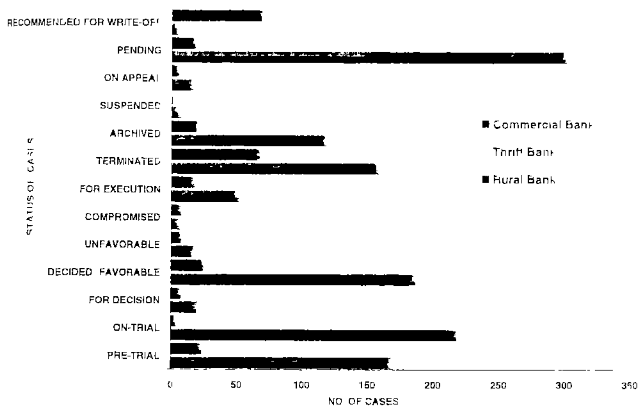
The Corporation through its Legal Affairs Sector (LAS) ensures that the policies adopted are consistent with its mandate of providing protection to the depositing public through deposit insurance, bank supervision, receivership and liquidation of closed banks. LAS provides legal, litigation and investigation services.

Legal services include preparation of legal documents and rendition of legal advice relating to operations and administrative matters Litigation services involve handling of proceedings on petitions for assistance in liquidation of closed banks under PDIC, including claims/cases filed by the creditors of closed banks against PDIC as liquidator. Litigation services also include handling of cases filed by or against PDIC acting as a corporate entity (insurer/co-regulator) to ensure that interests of the government are not prejudiced, and monitoring of the status of PDIC cases handled by the Office of the Government Corporate Counsel (OGCC). Investigation services involve validation/verification of frauds and irregularities in live and closed banks, credit investigation of prospective investors interested in rehabilitating closed banks property checking of borrowers of closed banks and background investigation of suppliers and contractors, as well as applicants for employment by PDIC

The Corporation disposed a total of 1 148 referrals out of 1,198 pertaining to opinion making and contract drafting and review during the year improving disposal rate to 95.8 percent Electronic codification of all opinions relating to operations and administrative cases which bega in 1997 was continued These opinions have been made available electronically, thus broadening access thereof to PDIC staff Researchers from other offices may also access these opinions as may be authorized.

As of the year under review, a total of 1,916 cases were handled and/or monitored by the Litigation Group, including 157 new cases involving closed banks (Chart 4.1). Of the total cases, 87 were decided in 1998 70 cases or 80 5 percent of which were decided favorably, accounting for total estimated recoveries in the amount of P1.04 billion, inclusive of the value of the properties recovered. Seventeen (17) cases or 19.5 percent were decided adversely, accounting for estimated loss in the amount of P99.5 million, however, majority of these cases are now either on appeal, pending reconsideration with the lower court, or subject of a motion to lift/discharge the writ of execution

Chart 4 1 STATUS OF CASES PER TYPE OF BANK
As of 31 December 1998



The liquidation court also approved the Corporation s "Motion for Approval of the Memorandum of Undertaking" for the purchase of Rural Bank of Katipunan s assets and assumption of liabilities by investors who infused additional funds to cover the bank's negative net worth This enabled all the creditors of RB Katipunan to recover their exposures and further paved the way for the opening of a new bank.

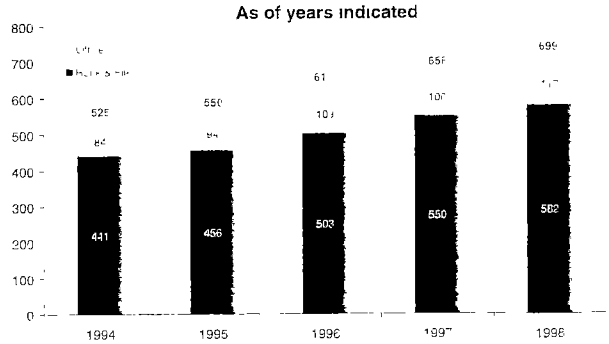
Foreclosure petitions filed within the year would yield recoveries in the total amount of P34 31 million

Investigations of 531 cases, i.e., 106 background checking 327 whereabouts/property checking, 26 bank fraud cases and 72 other miscellaneous cases were completed during the year. The bulk of the investigations involved a large number of insured deposit claims and alleged fictitious loans from several closed banks Claims for insured deposits worth P7.95 million were recommended for payment after they were investigated and found in order Payment of P7.76 million, representing claims of depositors who failed to submit necessary documents or who cannot be located was deferred, while claims amounting to P0.58 million were denied due to, among others, absence of cash inflow and missing passbooks and/or certificates. Filing of criminal charges against former officers and employees of closed banks was recommended after the conduct of investigations on alleged fictitious loans characterized by absence or lack of collateral, documentary deficiencies, non-receipt of loan proceeds, forged signatures and other anomalous practices.

Periodic discussions on proposed amendments to the PDIC Charter and drafting thereof were largely facilitated with the assistance of domestic and international legal consultants hired under the Asian Development Bank Technical Assistance (ADB TA) grant. Discussion papers prepared on various issues, e.g., offsets, immunities and liabilities of PDIC officers and employees bank holiday vis-a-vis suspension of payments and insolvency and corporate dissolution and winding up, and information provided on best practices of peer institutions such as practices in FDIC and CDIC on deposit insurance and crisis management, purchase and assumption schemes deposit insurance coverage of employee benefit plan accounts and joint accounts proved highly useful in drafting proposed amendments These amendments include among others the following (a) prohibition for a bank to engage in deposit-taking business unless its deposit liabilities are insured with PDIC (b) greater empowerment of the PDIC Board of Directors through substantive amendment of its authority to issue cease and desist orders against banks found to engage in unsafe and unsound banking practices

(c) increase in the maximum amount of deposit insurance coverage with corresponding increase in assessment premium, (d) access to deposit information during on-site examinations, subject to a number of safeguards to ensure confidentiality of information, and (e) enabling PDIC as receiver to sell or dispose assets of a closed bank to conserve the value of the assets and to cover receivership and liquidation costs.

Chart 4.2 PDIC WORKFORCE
As of years indicated



Human Resource and Administrative Services

Cognizant of the critical importance of quality manpower in the effective implementation of PDIC's mandate, the Corporation, through its Human Resource Management Center, continues to strengthen its manpower planning and development strategies. Despite constraints and rigidities brought about by the Salary Standardization Law, four human resource officers with proven track records in the private sector were recruited in 1998, bringing with them new technology and fresh perspectives to complement the knowledge, skills, and institutional heritage of the Corporation's human resource staff.

In line with the Corporation's intensified recruitment thrust, the Personnel Selection Board was reconstituted and procedures modified to expedite the selection process without sacrificing effectiveness. By yearend, manpower complement reached 699 (117 officers and 582 rank-and-file employees), reflecting a 6.6 percent increase over the 1997 level (Chart 4.2). Ninety-nine personnel were promoted during the year, 15 of them to officer positions. This is more than twice the 45 promotions made in the previous year. To further strengthen its ability to attract and retain high-caliber personnel, PDIC pursued initiatives to upgrade its compensation scheme.

Training and development rank high among PDIC's strategies to enhance organizational capability. Formal training programs through the PDIC Training Institute or external agencies are conducted to improve job performance and increase potential for career growth within the organization. Twenty-two in-house training programs were conducted by the PDIC Training Institute in 1998, benefiting 448 participants. These include the mandatory five-day Foundation Course, which serves as an orientation-cum-values formation program for all newly hired staff, and technical and job-specific seminars and workshops on such topics as Basic Banking Operations, Bank Accounting, Financial Analysis, Signature Verification and Forgery Detection and various computer-related courses. In addition, 137 personnel participated in domestic non-PDIC sponsored training/seminars, while 25 availed of foreign training and scholarship grants from foreign governments and the Asian Development Bank. During the year, a PDIC scholar completed his Master in Development Economics degree at Williams College in Boston, followed by internship at Sanwa Bank in New York. Four others likewise obtained their master's degrees under the Local Scholarship Program of the Civil Service Commission.

Supplementing formal training is the INTERACT (Information on Topics, Efforts and Relevant Action on Current Trends), an informative forum on various subjects periodically conducted by the Corporation. Four sessions were held during the year on topics ranging from public governance to self-discovery through Enneagram.

Table 4.0 summarizes the participation of PDIC personnel in training and development programs from [illegible] to 1998.

Table 4.0 PARTICIPATION IN TRAINING COURSES AND SEMINARS, 1994-1998

Training/Seminar	Frequency					Number of Participants				
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
I. Domestic Training	**94**	**99**	**101**	**89**	**101**	**522**	**761**	**905**	**655**	**587**
A. PDIC Training Institute	**13**	**17**	**35**	**28**	**22**	**385**	**622**	**676**	**530**	**448**
Foundation Course	1	2	2	2	2	60	94	89	87	61
Basic Supervisory Development			1		1			15		30
MUST-Whole Brain Thinking					2					29
Team-Building			1					18		
Basic Banking Operations	2	3	2	2	2	70	93	76	67	62
Bank Accounting	2	3	2	2	2	54	107	72	68	56
Financial Analysis		2		1	2		105		39	63
Bank Examination	1	1				28	38			
Claims	1	1	1			16	31	35		
Derivatives Risk Management					1					24
Corporation Law					1					37
Property Management	1					14				
Receivership & Liquidation	1	1		1		29	18		35	
Signature Verification			1		1			33		37
Effective Business Writing	1	3	1			21	104	35		
Effective Writing for Executives	2	1				58	32			
Effective Writing for Auditors	1					35				
Frontpage 98					1					5
Visual Basic			1					10		
Computer Systems Audit				1					32	
Power Builder and Windows NT 4 0				1					9	6
Windows 95			9	6	1			89	54	
MS Word			8	7	1			119	81	6
MS Excel			6	5	1			85	58	5
MS Project					1					5
MS Outlook					1					5
MS Access										12
MS Powerpoint					1					5
Fire Drill			1					105		
B. Others	**81**	**82**	**66**	**61**	**79**	**137**	**139**	**124**	**125**	**139**
Degree		1	2	2	2		1	8	4	2
Master in Public Management		1		1			1		1	
Master in Business Administration			1		1			7		1
Master of Arts in Economics			1					1		
Master of Science in Computer Science				1					3	
Master in Industrial Relations					1					1
Non-Degree (public seminars on various topics)	**81**	**81**	**64**	**59**	**77**	**137**	**138**	**116**	**121**	**137**
II. Foreign Training	**3**	**3**	**3**	**7**	**8**	**4**	**4**	**4**	**9**	**13**
A. Degree				**1**	**1**				**1**	**1**
Master in Development Economics				1					1	
Master of Economics of Development					1					1
B. Non-Degree	**3**	**3**	**3**	**6**	**7**	**4**	**4**	**4**	**8**	**12**
Human Resource Development and Productivity	1					1				
Human Resource Development and Management	1					1				
1995 European Community's Visitor Programme		1					1			
Senior Bank Supervisors from Developing Countries		1					2			
4th FIET World Bank Conference & FIET World Insurance Conference			1					1		
Asia-Pacific Financial Law Summit			1					1		
SEACEN Courses/Meetings										
Course on Bank Supervision	1	1	1	2	2	2	1	2	4	4
Workshop on Regulatory Action Plan					1					2
1st Advanced Course on Bank Supervision					1					1
11th Meeting of Directors of Supervision				1					1	
12th Meeting of Directors of Supervision					1					2
International Certificate Course in Property Valuation				1					1	
Intermediate Forum on Micro-Enterprise					1					1
International Conference Course on Deposit Insurance					1					2
Introduction to Micro-Finance				1					1	
Information Processing Personnel				1					1	
Grand Total	97	102	104	96	109	526	765	909	664	600

With the implementation of the ADB TA grant during the second half of the year in support of institutional capacity-building, foreign and domestic human resource consultants were engaged to evaluate the human resource requirements of the Corporation and set up priorities. The evaluation covered the key areas of corporate restructuring, recruitment, compensation, performance appraisal, employee suggestions and incentive awards system, training, career development, and human resource information system.

To address existing and anticipated space needs, the Board of Directors approved in 1995 the construction of a building annex at current headquarters in Pasong Tamo. Implementation was deferred to consider the invitation from the Bases Conversion Development Authority to relocate to the proposed government complex at Fort Bonifacio. On the other hand, proposed acquisition of an old building in Pasay City of the closed Banco Primero Development Bank, which the Board also approved in 1995, could not be implemented due to certain issues that had to be resolved with the Asset Privatization Trust (APT). With issues now resolved with the APT implementation of the Pasay City project is expected to proceed upon approval by the Office of the President of the Philippines.The original objective for this acquisition was to provide a relocation site for personnel who would be dislocated as a result of construction work at the PDIC building. Nevertheless, should the annex project not push through and relocation to another site be decided on, the much needed space would still have to be provided in the interim. Modest rehabilitation work will enable the Corporation to experiment with different space configurations to improve work process for claims, receivership and liquidation operations that involve large volume of records of closed banks.

Strengthening Linkages

Special Projects

The Corporation's objective of strengthening institutional capability was largely facilitated with the implementation of the Asian Development Bank Technical Assistance (TA) Grant. Under the TA, PDIC was able to hire international and domestic consultants covering five areas: bank examination and monitoring, information systems, drafting of amendments to PDIC Charter, financial and risk management, and human resource management. In addition, two resource persons from the Office of the Superintendent of Financial Institutions and the U.S. Federal Deposit Insurance Corporation (FDIC) provided their expertise in the areas of risk management and legal affairs. Three more international consultants are expected to render services in 1999. To ensure successful implementation of the Grant, a PDIC Working Group composed of senior PDIC officials was created to provide counterpart expertise.

Staff training programs were also provided under the grant, consisting of in-house training included as part of the consultancy services, other domestic training programs, and ADB-sponsored overseas study visits and internships in deposit insurance agencies in selected developed countries. Nine PDIC personnel participated in training programs funded under the ADB TA, i.e., 12th Southeast Asian Central Banks (SEACEN) Meeting of Directors of Supervision, the 31st and 32nd SEACEN Courses on Banking Supervision, First SEACEN Advanced Course on Banking Supervision, and the FDIC International Conference on Deposit Insurance. Two more are scheduled to participate in a training program on bank examination at the Federal Reserve Bank of San Francisco in the United States in the early part of 1999.

Complementing the ADB TA Grant is the World Bank assistance aimed at upgrading the regulatory framework of the country's financial system, specifically those of the BSP, Securities and Exchange Commission and PDIC. Assistance to PDIC is focused on consultancy services and training in claims, receivership and liquidation of closed banks. Drawdowns are expected to be made starting the second semester of 1999.

Training of Visiting Officials

As a pioneer in deposit insurance in Asia, the Corporation was requested to conduct briefings/orientation programs to visiting officials from Nepal, Tanzania, ...

...tnam. These events enhanced information-sharing and ...stered closer spirit of cooperation with deposit insurance ...unterparts in various countries

Upon request of the Deposit Insurance and Credit ...uarantee Corporation (PVT) Ltd. (DICGC) of Nepal, a ...ree-day briefing on PDIC operations was conducted for ...s General Manager, Vijaya Ram Mathema and Director, ...akunda Karmacharya. The visiting officials also met with ...ficers of the BSP, the Guarantee Fund for Small and ...edium Enterprises, and the Credit Guarantee Corporation ...f the Bankers Association of the Philippines.

An orientation program on PDIC operations was also ...onducted for Mr. Nemes Malekani, Assistant Manager of ...he Deposit Insurance Board of the Central Bank of ...anzania. The training focused on accounting and ...nvestment operations, complemented with hands-on ...raining. Aside from the two-week training, the Tanzanian ...official observed takeover operations in a closed thrift bank. Visits were made to the Philippine Chamber of Thrift Banks, the BSP and Bankers Association of the Philippines.

A one-week training program was conducted for six officials from the Bank of Vietnam. The briefing focused on deposit insurance claims settlement and funds management. The Vietnamese officials also observed takeover and pay-off operations in a closed thrift bank.

Internal Audit

All operations are audited by the Management Control Office (MCO) to ensure integrity and efficiency of operations and enhance corporate conduct for accountability. Audit services include annual comprehensive performance evaluation of operating and support units and periodic routine verifications of selected risk areas.

During the year, 31 comprehensive reviews of operating and support units were performed aside from periodic verifications of cash and securities and inspection of premises. For closed banks under PDIC receivership and liquidation management, 11 limited audits and 9 special audits of cash transactions were performed.

MCO is the corporate arm interfacing with the Commission on Audit for mutual understanding of each other's policies, practices and decisions, and resolution of existing and potential audit concerns.

FINANCIAL PERFORMANCE

Financial Resource Management

The primary corporate goal in financial resource management is to maximize income and at the same time be equipped with an adequate level of liquidity sufficient for operating needs and payment of claims of depositors of closed banks. The principal sources of funds are premium collections from member banks assessed on the basis of total deposits, and interest income on investments in government securities and maturing investments. Funds are deployed to cover operating expenses, payment of insured deposit claims as well as financial assistance to banks.

To minimize on non-earning funds, average daily working balance was kept within the limit of P400,000 and adjusted during payment of insured deposits, bi-monthly payroll, remittances to government agencies and payment of utilities. The P1.5 billion domestic bills purchase line (DBPL) and the stand-by facility of P10 million short-term loan line with the Land Bank of the Philippines (LBP) were renewed for liquidity support. The DBPL enables the immediate clearing of checks deposited to LBP, foregoing the three-day clearing time. The stand-by facility of P10 million short-term loan line finances large funding requirements pending maturity of placements in government securities.

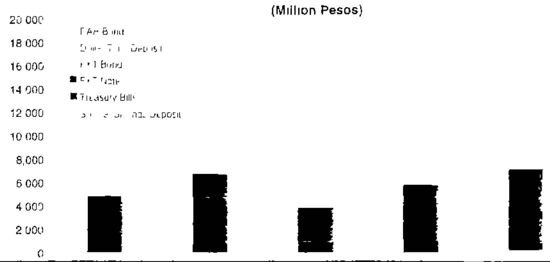
In order to take advantage of high interest rates, the bulk of assessments collected from member banks in the first semester of 1998 was invested in 10-year fixed rate treasury bonds (FXT/Bonds) at 22.9 percent interest, while the rest was placed in 182-day and 364-day treasury bills at rates ranging from 18.5 percent to 22.6 percent, an unusual opportunity which only lasted for a short period. When rates for the 10-year bonds fell below the 5-year FXT/Notes in May, placements were shifted to 5-year FXT

Notes at 20.0 percent which improved to 21.0 percent from June to August At the end of August, PDIC also invested in 20-year FXT/Bonds with coupon rate of 14 4 percent and yield-to-maturity of 20.6 percent. PDIC subsequently shifted back to 10-year FXT/Bonds at 20.0 percent in September and October when the Bureau of Treasury stopped issuing 20-year bonds

In the last two months of the year, financial management became more challenging. While the strategy was to phase out investments in short-term maturities and continue investing in long-term, high-yielding securities, PDIC did not fully abandon placements in short-term instruments because of the need to pay insured deposit claims of depositors of a commercial bank and three thrift banks. The Corporation preterminated its investments in one-year treasury bills amounting to P449.70 million. The entire amount was placed in short-term investments with differing maturities and released whenever the need for pay-off funds arose Liquidity was supplemented with the sale of P90 million 2-year FXT/Notes with coupon rate of 16.5 percent to BSP, with right for PDIC to repurchase at the same rate. The amount released for pay-off operations amounted to P987.82 million from November to December 1998.

Investments as of yearend 1998 increased to P17.87 billion from the previous year's level of P13.51 billion, with 97 0 percent placed in longer-term and higher-yielding government securities that earn semi-annual interests (Chart 5 1). Of the total investments, P17 40 billion were peso-denominated securities. Earnings from interests on peso investments (net of 20 percent final tax) reached P2 15 billion, or an increase of P0.77 billion from last year's figure of P1.38 billion Corresponding withholding taxes on these investments amounted to P537 72 million Overall return on peso investments was estimated at 13 6 percent net of tax, compared to 12.3 percent in 1997

Chart 5 1 PDIC INVESTMENTS
(Million Pesos)



	1994		1995		1996		1997		1998	
	Amount	% Dist'n	Amount	% Dist'n	Amount	% Dist'n	Amount	% Dist'n	Amount	% Dist'n
Special Savings Deposits	1.52	0.0%							187.20	1.0%
Treasury Bills	4,799.05	95.7%	4,639.21	67.2%	881.71	8.9%	1,020.45	7.6%	83.95	0.5%
FXT/Notes			2,023.05	29.3%	2,902.4[illegible]	29.3%	4,704.45	34.8%	6,839.81	38.3%
FXT/Bonds	-				5,850.41	59.1%	7,351.47	54.4%	10,293.15	57.6%
Dollar Time Deposits	110.06	2.2%	109.64	1.6%	131.41	1.3%	229.38	1.7%	257.17	1.4%
PAR Bonds	102.50	2.1%	128.27	1.9%	132.27	1.3%	207.57	1.5%	208.10	1.2%
Total	5,014.13	100.0%	6,900.17	100.0%	9,898.2[illegible]	100.0%	13,513.33	100.0%	17,869.41	100.0%

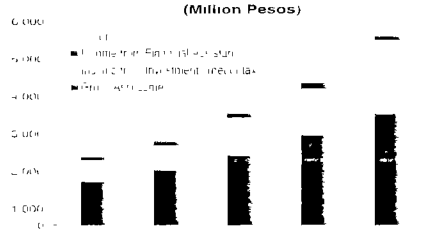
Maturing dollar time deposits and interest collections from PAR Bonds were renewed/invested in 91-day to 120-day dollar time deposits Rates ranged from as high as 6 5 percent at the beginning of the year to 5.4 percent towards the end of the year Earnings from interests on dollar investments (net of tax) reached P42.13 million Corresponding withholding taxes on these investments amounted to P1 18 million Nominal return on dollar placements was higher but with the imposition of a 7.5 percent tax on dollar placements effective January 1998, net return decreased to 6 1 percent compared to 6 4 percent in 1997.

For the year 1998, aggregate earnings from investments on both peso and dollar (net of tax) amounted to P2.20 billion an increase of P0.78 billion from P1.42 billion in 1997 Taxes withheld were recorded at P0.54 billion.

Results of Operations

Gross income of P5.56 billion for 1998 was 28.7 percent higher than last year's P4.32 billion, exhibiting an average growth of 28 7 percent over the last five ye[illegible] (Chart 5.2) Of the total P3 26 billion came fr[illegible] assessments levied against deposit liabilities of banks. [illegible] percent higher than last year's P2 63 billion The incre[illegible] as attributed to deposit growth in the banking system. come from investments (net of tax) which constituted bout 40 percent of gross income reached P2.20 billion, 5.2 percent higher than last year's P1 42 billion. vestments continued to be placed in medium to long term overnment securities to benefit from higher yields. quidity requirements brought about by the closure of everal banks in 1998, however, constrained the orporation to pre-terminate its one year treasury bills to ace programmed pay-off of insured deposit claims. With ull payment made by Network Rural Bank of Southern Philippines of their outstanding loan obligation, payment f loan principal by Insular Savings Bank, and partial ayments by Westmont Bank and Philippine Veterans Bank, income from financial assistance amounted to P93.74 million, P29.64 million lower than last year's P123.39 million.

Chart 5.2 GROSS INCOME
(Million Pesos)

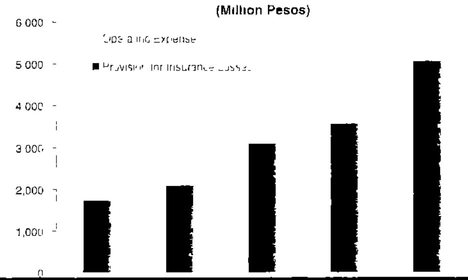


	1994	1995	1996	1997	1998
Gross Assessment	1 264 85	1 601 63	2 037 17	2 627 42	3 265 39
Income from Investments (net of tax)	629 26	751 18	1 105 95	1,416 93	2 198 72
Income from Financial Assistance	108 42	99 16	106 99	123 39	93 74
Others *	2 69	11 34	215 57	154 32	2 96
GROSS INCOME	**2,005 22**	**2 463 33**	**3 465 68**	**4 322 05**	**5 560 81**

* Includes gain in foreign currency revaluation of P7 47 million and P151 94 million for 1995 and 1997 respectively

Total expenses on the other hand, amounted to P5.52 billion 28 6 percent higher than last year's P4 30 billion an average growth of 28 7 percent over the last five years (Chart 5.3) Provision for insurance losses (amount set aside annually to build up reserves to cover insured deposit claims that may arise from bank closure and potential losses from existing closed banks) was recorded at P5.05 billion, P1 49 billion or 42 0 percent higher than last year's P3 56 billion The higher provision is attributable to the large number of banks identified to have deteriorating financial condition that may ultimately lead to closure. Operating expenses, which include cost of operations, subsidies for bank rehabilitation and provision for uncollectible accounts, amounted to P461.39 million (excluding losses in foreign currency revaluation), P275.87 million lower than last year's P737.26 million.

Chart 5.3 TOTAL EXPENSES
(Million Pesos)



	1994	1995	1996	1997	1998
Provision for Insurance Losses	1,735 94	2 094 71	3,089 18	3,559 27	5,052 51
Operating Expenses *	259 19	345 91	352 06	737 26	473 04
TOTAL EXPENSES	**1 995 13**	**2 440 62**	**3 441 24**	**4,296 53**	**5.525.55**

* includes losses in foreign currency revaluation for the years 1994 1996 and 1998 amounting to P3 46 million P3 24 million and P11 64 million respectively

Net income for the year stood at P35.27 million. P9.74 million higher than the level in 1997 In accordance with the law, 50 percent of net income shall be remitted to the Bureau of Treasury as dividend of the P3 0 billion equity of the National Government

Financial Position

Total assets more than tripled over the last five years as it surged to P24.50 billion as of yearend 1998, P6.06 billion or 32 9 percent higher than last year's P18.44 billion Increase in assets was largely due to increase in long-term investments (P5 08 billion), receivable from BSP-Treasury Department and subrogated claims receivable at P1.32 billion and P1 11 billion respectively. These more than offset decreases in short-term investments of P721 52 million and financial assistance to banks of P457 96 million As of yearend 1998 short-term investments contracted from P1.25 billion as of yearend 1997 to P528 32 million as of yearend 1998 due to pretermination of treasury bills intended to service claims of depositors of closed banks

Outstanding financial assistance to banks also declined by 14.6 percent from 1997 level, resulting from full payment of Network Rural Bank of Southern Philippines, payment of Insular Savings Bank of its outstanding loan principal, and partial repayments of Westmont Bank and Philippine Veterans Bank (see Note 6).

Receivable from BSP-Treasury Department amounting to P1.32 billion represents the second tranche of the P2.50 billion total funding from BSP through PDIC for the rehabilitation of the former Monte de Piedad and Savings Bank (now Keppel Monte Bank). The amount was invested by the BSP Treasury Department in government securities in behalf of PDIC to accumulate income which will pay off the interest and principal of the first tranche of P1.18 billion released to Monte de Piedad in May 1997 as BSP's share in the former's rehabilitation. Upon its release on 14 December 1998, the P1 32 billion second tranche of the BSP loan was initially recorded as receivable from the BSP Treasury In early 1999 however the account, together with the P1.18 billion financial assistance to Monte de Piedad and the corresponding borrowings from the BSP totaling P2.50 billion was removed from the books of the Corporation in compliance with the Commission on Audit recommendation not to recognize in the books the assistance granted to Monte de Piedad due to the agreement between parties that funding and repayments would come from BSP In addition, the PDIC Board of Directors declared Keppel Monte Bank to have substantially complied with the rehabilitation milestones set by the PDIC Board in May 1997, thereby rendering unnecessary previous requirements for the repurchase of assets and appointment of a PDIC nominee director to the Bank's Board (see Notes 7 and 12)

Subrogated claims receivable increased to P4 32 billion as of yearend 1998 or 34 7 percent higher than last year's level The increase amounting to P1 11 billion was due to payment of insured deposits made in 20 banks (18 closed in 1998 and 2 in 1997) which started claims settlement operations (CSO) during the year plus continuing payment of insured deposits in other closed banks which started CSO in prior years. Among the multi-unit banks which started CSO in 1998 were Orient Bank (first commercial bank closed since The Manila Banking Corporation in 1987), and three thrift banks namely, Unified Savings and Loan Association, Fortune Savings and Loan Association, and Community Savings and Loan Association (see Note 8 for others).

On the other hand, total liabilities increased to P21.23 billion, 39.6 percent higher than last year's P15.21 billion, posting an average increase of 31.8 percent over the last five years. Increase in total liabilities was attributed to corresponding increases in long term liabilities and estimated insurance losses The increase in long term liabilities to P4 17 billion or 46 6 percent over last year's P2.85 billion was a result of the release of the second tranche of the P2 50 billion BSP loan in connection with the rehabilitation of Monte de Piedad and Savings Bank (see Note 12) The P2.50 billion loan from the BSP was removed from PDIC books in 1999 as explained earlier. Estimated insurance losses as of yearend 1998 amounted to P16 78 billion or 38.8 percent higher than last year's P12 09 billion This account is intended to cover losses from member banks identified to have great probabilities of closure where payment of insured deposits upon closure may exceed estimated recovery of subrogated claims upon liquidation (see Note 1 f 1) The increase can be attributed to the greater number of banks affected by stresses in [illegible] banking system

Retained earnings grew by P42 15 million or [illegible] percent increasing the deposit insurance fund [illegible] yearend 1998 to P3 27 billion.

CHALLENGES IN THE NEW MILLENNIUM

To support the country's economic growth in the face of increasing globalization, it is imperative for Philippine banks to be strong and internationally competitive. Towards this end, a number of significant policies have been initiated which include, among others, the gradual increase in banks' capital requirements and relaxation of rules on bank licensing and entry of foreign banks. Banks expanded rapidly in terms of resources especially in the early 1990's when the economy rebounded and recorded sustained growth. Aggressive lending marked the period, and large banks even diversified their portfolio towards investment banking. Funds from abroad were particularly significant in augmenting banks' resources for financial intermediation. Increase in the number of banking offices and new deposit products and services introduced in the market further enabled banks to solicit more funds to finance their activities. Advanced technologies were adopted to effectively manage bank operations and provide better client service.

Amid all these positive developments however, concerns were raised on the possible adverse effects of liberalization to the banking sector and banks' risk exposure to demands of economic expansion. Freer entry of new banks led to the proliferation of small banks as well as the hiring of inexperienced bankers in the industry. The increased demand in FCDU loans, real estate, and consumer loans during economic expansion exposed banks to greater risks. The extent of these risk concerns manifested when the Asian currency crisis struck in the second half of 1997. Economic expansion halted, and stresses in the banking system mounted as loan defaults piled up with the depreciation of the peso.

Lessons from the crisis underscored the need to complement liberalization with consistent and market-oriented macroeconomic policies to ensure that the opportunities created through reforms will not lead to imprudence and excessive risk-taking among market players. The policy allowing for freer entry and licensing of banks should be reviewed to prevent those unfit from entering the banking business. To strengthen capital base, mergers and acquisitions are being encouraged. The legal framework within which banks operate is currently being enhanced with the amendment of the General Banking Act and the New Central Bank Act. Amendments to the PDIC Charter are also currently being prepared. It is hoped that these legal initiatives would address issues of transparency, safeguards against bank abuses and excesses, promotion of professional management, and a more level playing field among banks.

For its part, PDIC believes that the best protection that can be provided to depositors is to ensure that banks are managed well and are strongly capitalized, reinforced by greater information disclosure and transparency in the system. Timely and accurate information should be made available to bank regulators and the depositing public as well. Without access to timely information, bank regulators capacity of detecting unsound banking practices and imposing immediate corrective action is restrained and depositors are subjected to risk of bank abuse and worse, failures. Currently, the Law on Secrecy of Bank Deposits prohibits regulators from inquiring into deposit records, thus limiting their examination function and their ability to ascertain accuracy of financial statements. Recently closed banks showed that generally, bank records, especially deposit records, were poorly maintained necessitating extensive validation and verification of accounts on the part of PDIC, resulting in protracted claims processing. Depositors, on the other hand, need access to information to enable them to make their own judgment in their choice of banks.

Close coordination with BSP shall be continually fostered, especially in conducting joint examinations of banks to ensure well-coordinated actions for effective enforcement of standards and regulatory intervention. Less regulatory forbearance should be enforced, specifically on delay of closure of insolvent banks which cause considerable disruption and suffering to depositors' lives. Overextended bank holidays, which create undue anxiety and stress to depositors, should not be tolerated. Moreover, banks' external auditors should be mobilized to strengthen supervision by requiring submission of their material findings to regulators and making them more accountable for their findings.

PDIC advocates for the development of private sector capacity to carry out bank receivership and liquidation functions to avoid subjecting receivership and liquidation to the rigors of government auditing standards on accountability of public funds Government rules preclude early termination of liquidation which takes its toll on asset quality and exclusion from economic use. The rigidities in government auditing severely restrict capacity to compromise on collections of loans and negotiated sales for early disposal of assets

To carry out its functions more effectively, the Corporation shall constantly develop its personnel to upgrade their skills and provide incentives to elicit commitment and improve overall performance It shall continue to pursue initiatives to obtain relief from the Salary Standardization Law in order to enhance its ability to retain and attract the high-caliber talent it needs to effectively implement its mandate

The Corporation shall also fortify its financial strength by continuously building up its insurance reserves. The pursuit of a healthy level of reserves is also in consonance with the PDIC vision of achieving financial independence with insurance funds generated from resources mobilized by the system, and finally returning the government capital infusion of P3.0 billion A comfortable level of reserves may also lead to differentiated premium rates depending on various risk factors.

PDIC is committed to relentlessly pursue strategies to provide greater depositor protection through enhancement of its capacity to meet the demands of the banking industry in the coming millennium.

RATIVE STATEMENTS OF CONDITION

usand Pesos)

	1994	1995	1996	1997	1998	Increase/ (Decrease) 97-98 Amount	%
TS							
nt Assets							
Cash on Hand and in Banks (Note 2)	4,516	10,794	49,488	107,180	**221,639**	114,459	106 8%
Short Term Investments (Note 3)	4,911,231	4,748,875	1,013,119	1,249,840	**528,322**	(721,518)	-57 7%
Interest Receivable from Investments	431,804	573,856	455,426	417,290	**444,440**	27,150	6.5%
Other Current Assets (Note 4)	81,372	87,928	27,853	72,120	**7,817**	(64,303)	-89 2%
Total Current Assets	**5,428,923**	**5,421,453**	**1,545,886**	**1,846,430**	**1,202,217**	**(644,212)**	**-34.9%**
Term Investments (Note 5)							
Government Securities - Treasury Bonds (Dollar)	102,895	128,266	132,271	207,574	**208,100**	526	0.3%
Government Securities - Treasury Notes/ Bonds (Peso)	0	2,023,031	8,752,839	12,055,924	**17,132,991**	5,077,067	42 1%
Total Long Term Investments	**102,895**	**2,151,297**	**8,885,110**	**12,263,498**	**17,341,091**	**5,077,593**	**41.4%**
ancial Assistance to Banks (Note 6)	**1,731,373**	**1,812,833**	**2,098,902**	**3,144,984**	**2,687,034**	**(457,950)**	**-14.6%**
e from BSP-Treasury (Note 7)					1,325,000	1,325,000	
brogated Claims Receivable (Note 8)	3,014,393	3,077,753	3,136 470	3,203,433	**4,315,936**	1 112,503	34 7%
ss: Allowance for Losses on Subrogated Claims Receivable	1,507,197	1,538,877	1,904,356	1,943,005	**2,305,590**	362,585	18 7%
Subrogated Claims Receivable - Assigned	210,692	250,736	329,050	329,583	329,583	0	0.0%
Net Subrogated Claims Receivable	**1,296,504**	**1,288,140**	**903,064**	**930,845**	1,680,763	**749,918**	**80.6%**
ixed Assets (Note 9)	**178,740**	**175,967**	**173,863**	**168,417**	172,050	**3,633**	**2.2%**
ther Assets (Note 10)	**82,648**	**76,286**	**79,825**	**85,547**	93,933	**8,385**	**9.8%**
OTAL ASSETS	**8,821,083**	**10,925,977**	**13,686,650**	**18,439,721**	24,502,088	**6,062,367**	**32.9%**
ABILITIES, DEPOSIT INSURANCE FUND AND CONTINGENT SURPLUS							
ABILITIES							
Current Liabilities (Note 11)	349 226	203,105	212,473	265,073	**263,208**	(1,865)	-0 7%
Long Term Liabilities (Note 12)	1,521,000	1,671,000	1,671,000	2,846,000	**4,171,000**	1,325,000	46 6%
Estimated Insurance Losses (Refer to Note 1)	3,786,206	5,848,173	8,571,873	12,092,490	**16,782,414**	4,689,924	38.8%
Other Liabilities (Note 13)	250	69	3,298	7,682	**14,389**	6,707	87.3%
TOTAL LIABILITIES	**5,656,683**	**7,722,347**	**10,458,644**	**15,211,245**	21,231,011	**6,019,766**	**39.6%**
DEPOSIT INSURANCE FUND							
Permanent Insurance Fund (Note 14)	3,000,000	3,000,000	3,000,000	3,000,000	**3,000,000**	0	0 0%
Retained Earnings	163,329	202,621	226,997	227,861	**270,009**	42,148	18 5%
TOTAL DEPOSIT INSURANCE FUND	**3,163,329**	**3,202,621**	**3,226,997**	**3,227,861**	3,270,009	**42,148**	**1.3%**
CONTINGENT SURPLUS	**1,072**	**1,009**	**1,009**	**615**	1,068	**453**	**73.7%**
TOTAL LIABILITIES, DEPOSIT INSURANCE FUND AND CONTINGENT SURPLUS	8,821,083	10,925,977	13,686,650	18,439,721	24,502,088	6,062,367	32.9%

COMPARATIVE STATEMENTS OF INCOME AND EXPENSE

(In Thousand Pesos)

	1994	1995	1996	1997	1998	Increase/ (Decrease) 97-98 Amount	%
GROSS ASSESSMENT (Note 15)	**1,264,846**	**1,601,650**	**2,037,168**	**2,627,417**	3,265,391	637,974	24.3%
Less. EXPENSES							
Provision for Insurance Losses	1,735,938	2,094,713	3,089 179	3,559,266	**5,052,509**	1,493,243	42 0%
Operating Expenses * (Note 16)	255,706	345,910	348,819	737,259	**461.393**	(275.866)	-37 4%
TOTAL EXPENSES	**1,991,644**	**2,440,624**	**3,437,998**	**4,296,525**	5,513,902	1,217,377	28.3%
Excess of Expenses over Assessment	**(726,797)**	**(838,973)**	**(1,400,830)**	**(1,669,108)**	(2,248,511)	**(579,403)**	**34.7%**
INCOME FROM INVESTMENTS (net of tax)							
Treasury Notes/ Bonds (Peso)	0	107,126	823,652	1 304,820	**1,959,621**	654,801	50.2%
Treasury Bills	458,207	618,591	257,524	76,079	**187,479**	111,400	146 4%
Treasury Bonds (Dollar)	907	14,947	17,100	17,108	**26,904**	9,796	57 3%
Time Deposit	6,944	5,649	7,393	8,823	**15,221**	6,398	72 5%
Regular and Special Savings Deposit	162,638	531	281	1,309	**6,433**	5,124	391 4%
Gain on Sale of Investments	565	4 334	0	8,788	**3,059**	(5,729)	-65 2%
TOTAL INCOME FROM INVESTMENTS (net of tax)	**629,262**	**751,179**	**1,105,950**	**1,416,927**	2,198,717	781,790	55 2%
INCOME FROM FINANCIAL ASSISTANCE	**108,418**	**99,161**	**106,990**	**123,386**	93,745	(29,641)	-24 0%
GAIN ON SALE OF FIXED ASSETS	0	0	212,909	31	86	55	[illegible]
OTHER INCOME (Note 17)	2,690	3,871	2,662	2,348	2,673	525	22 4%
	740,370	**854,211**	**1,428,511**	**1,542,692**	2,295,421	**752,729**	**48.8%**
Net Income (Loss) Before Foreign Currency Revaluation	**13,573**	**15,238**	**27,681**	**(126,416)**	46,910	**173,326**	[illegible]
Gain (Loss) in Foreign Currency Revaluation	(3 485)	7,472	(3,239)	151,940	(11,644)	(163,584)	[illegible]
NET INCOME	**10,088**	**22,710**	**24,442**	**25,524**	35,266	**9,742**	[illegible]

Note Prior years presentation was adjusted for comparison

* Inclusive of subsidies for bank rehabilitation in the amount of P345 67 million in 1997 and P38 23 million in 1998

ATIVE STATEMENTS OF CASH FLOWS

and Pesos)

	1994	1995	1996	1997	1998	Increase/ (Decrease) 97-98 Amount	%
LOWS FROM OPERATING ACTIVITIES							
ceived from member banks for assessments	1,264,025	1,601,530	2,036,665	2 627,144	**3,263,605**	636,461	24 23%
from savings deposits	871	709	339	1,638	**7,849**	6,211	379 18%
ons of interest on financial assistance	81,719	56,767	131,117	105,946	**85,639**	(20,307)	-19 17%
from investments	430,953	762,288	1 414,016	1,725,500	**2,472,303**	746,803	43.28%
ons of various receivables	2,170	1,299	1,796	3,233	**5,714**	2,481	76.74%
ons from subrogated claims	1,660	4,045	8,084	9,760	**7**	(9,753)	-99 93%
aneous income	631	653	2,731	4,401	**2,119**	(2,282)	-51.85%
s inflows	3,437	0	1,582	0	**14,011**	14,011	
ses incurred for R/L of closed banks	(3 424)	(4,229)	(4,184)	(5,237)	**(6,059)**	(822)	15 70%
nts to suppliers	(26,471)	(76,724)	(34,014)	(59,014)	**(101,048)**	(42,034)	71.23%
nts to employees	(48,983)	(73,183)	(112,267)	(157,673)	**(147,795)**	9,877	-6.26%
ances to BIR, HDMF, GSIS, etc.	(18,704)	(27,778)	(27,605)	(35,470)	**(31,921)**	3,549	-10 01%
axes and other prepaid expenses	(215,667)	(141,850)	(155,520)	(210,024)	**(92,320)**	117,704	-56 04%
ent of interest on BSP loans	(737,128)	(258,570)	(128,931)	(128,576)	**(129,285)**	(709)	0 55%
ent of insured deposits	(34,108)	(67,406)	(66,762)	(76,692)	**(1,112,568)**	(1,035,876)	1350.70%
us outflows	(3,517)	0	(15,804)	(100,206)	**(201,964)**	(101,758)	101.55%
Cash Provided by Operating Activities	**697,464**	**1,777,551**	**3,051,242**	**3,704,730**	**4,028,286**	**323,556**	**8.73%**
H FLOWS FROM INVESTING ACTIVITIES							
ceeds from matured investments	11,530,168	6,933,479	5,784,236	4,382,167	**3,451,929**	(930,238)	-21 23%
n from sale of investment	565	4,334	0	8,788	**3,059**	(5,729)	-65 19%
lection of financial assistance granted to member banks	333,987	33,584	62,245	129,451	**457,951**	328,500	253 76%
estment made by BSP FAO PDIC					**(1,325,000)**	(1,325,000)	
estments	(11,729,790)	(8,815,709)	(8,778,289)	(7,977,013)	**(7,803,211)**	173,802	-2.18%
ancial assistance granted to member banks	(825,000)	(75,000)	(270,000)	(1,500,000)	**[illegible]**	1,500,000	-100 00%
ceeds from sale of fixed assets	0	100	215,000	31	**86**	55	177 42%
pital expenditures	(8 001)	(2,287)	(10,757)	(5 181)	**(4,440)**	741	-14 30%
Cash Provided by Investing Activities	**(698,071)**	**(1,921,500)**	**(2,997,565)**	**(4,961,757)**	**[illegible]**	**(257,869)**	**5.20%**
SH FLOWS FROM FINANCING ACTIVITIES							
rrowings from BSP for financial assistance	0	150,000	0	1,175,000	**1,325,000**	150,000	12.77%
ayment of loans to CB-BOL/BSP	(25,213)	(1,000)	0		**0**	**0**	0
ayment of dividend to National Government	(4,415)	(5,044)	(11,355)	(12,221)	**(12,762)**	(541)	4 43%
rior period adjustment to retained earnings	35 484	(780)	(66)	0	**0**	0	
Net Cash Provided by Financing Activities	**5,856**	**143,176**	**(11,421)**	**1,162,779**	**1,312,238**	**149,459**	**12.85%**
Effect of Foreign Currency Revaluation	**(3,485)**	**7,052**	**(3,562)**	**151,940**	**(6,440)**	**(158,380)**	**-104.24%**
Net Increase in Cash	**1,765**	**6,278**	**38,694**	**57,692**	**114,458**	**56,766**	**98.39%**
Cash and Cash Equivalents at Beginning of Year	2,750	4 515	10,794	49,488	**107,180**	57,692	116 58%
Cash and Cash Equivalents at End of Year	4,515	10 794	49,488	107,180	**221,638**	114,458	106 79%
Net Increase in Cash	**1,765**	**6,278**	**38,694**	**57,692**	**114,458**	**56,766**	**98.39%**

Notes to Statement of Cash Flows

a) Prior year presentation was adjusted for comparison

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Basis for Recording*

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

b. *Assessment*

Member banks are assessed a maximum rate of 1/5 of 1 percent of total deposit liabilities per annum, collected on a semestral basis. The amount of assessment is based on the average deposit liabilities as of end of March and June for the first semester payable not later than 31July, and as of end of September and December for the second semester, payable not later than 31 January of the following year Failure or refusal by any member bank to pay any assessment due may lead to 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, provided such assistance is the least costly alternative In applying this concept, the cost of financial assistance must not exceed amount of insured deposits at the time of rehabilitation. 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 government securities, such as treasury bills, notes and bonds (both peso and dollar) recorded at cost and adjusted upon amortization of premium or discount Income on notes and bonds are accrued over the term of the instrument. Final taxes paid upon placement are booked as Prepaid Taxes and amortized over the term of the placement

e. *Dollar-Denominated Assets*

Dollar-denominated assets are carried at value as at transaction date and revalued at 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 is intended to adequately cover anticipated losses from member banks identified to have great probabilities of closure where payment of insured deposits 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 such 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 provision is presented as a liability. Estimated Insurance Losses for 1998 was arrived at using a simple nominal computation at 50 percent for rural banks, 40 percent for thrift banks and 20 percent for commercial banks This is a departure from previous year's computation which used present value rate of 8 percent for 6 years Using this present value rate in 1998 would result to Estimated Insurance Losses amounting to P23 63 billion which, in the judgment of the management, was too conservative

f.2 Provision for losses on Subrogated Claims Receivable (payments made by the Corporation on claims for insured deposits) is estimated using the nominal rates of losses on each type of closed bank unlike in 1997 where the average of the nominal and present value rates were used This is presented as reduction from receivables Following are the loss rates used

	Nominal Rate
Commercial Banks	20%
Thrift Banks	30%
Rural Banks	50%

g. *Accumulated Assessment Losses*

Pursuant to Section 6(d) of Republic Act 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 For 1998 excess of expenses over assessment is net of P350 million loss which shall be carried forward to be absorbed by assessment due in 1999

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 percent of total receivables outstanding at yearend *ventories*

Inventories of supplies and materials, decals and standees, ostage stamps and documentary stamps are recorded at cost Cost determined using the first-in first-out (FIFO) method

ixed Assets

Fixed assets are carried at cost and depreciated using the traight line method as follows·

Computers, Furniture, Fixtures, 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.

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 percent of basic salary to each fund while the Corporation puts in a total of 45 percent Corporate contribution is vested to the employee after completing a year of service in the Corporation

Accumulated Net Income Adjustment

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

TE 2 - CASH ON HAND AND IN BANKS

s account includes the following

	1997	1998
	(In Thousand Pesos)	
sh on Hand	P 99,651	P 98,145
sh in Bank - Principal Accounts	1,015	954
sh in Bank - Direct Settlement of Claims	1,726	22,117
sh in Bank -Transferee Banks	4 781	100,416
e from BSP	7	7
Total	**P 107,180**	**P 221,639**

The Cash on Hand balance includes checks and other cash items mounting to P98.06 million received after banking hours on the last working day of the year and deposited the following banking day Cash n Bank - Principal Accounts refers to payroll and corporate operating unds Cash in Bank – Direct Settlement of Claims and Cash in Bank - Transferee Banks refer to funds for payment of insured deposits claims of depositors of closed banks Direct settlement of claims is a mode of payment of insured deposits whereby disbursement officers of the Corporation are deployed to the closed banks to service depositors Under the transferee bank scheme, the Corporation enters into an agreement with Land Bank branches within the vicinity of the closed banks for the latter to service claims of depositors of closed banks on behalf of the Corporation

NOTE 3 - SHORT TERM INVESTMENTS

This account includes the following

	1997	1998
	(In Thousand Pesos)	
Treasury Bills [a]	P 1,020,452	P 83,948
Dollar Time Deposits [b]	229,388	257,174
Special Savings Deposits	-	187,200
Total	**P 1,249,840**	**P 528,322**

[a] Refers to government securities guaranteed as to principal by the Republic of the Philippines and issued by the government through the Bureau of Treasury, with terms ranging from 352 to 364 days at interest rates of 17 05 percent to 22 49 percent The decrease is due to pre-termination to service claims for insured deposits in 1998 and shift to long term investments

[b] Refers to dollar placements in time deposit with terms ranging from 35 to 120 days at interest rates of 5 43 percent to 5 92 percent, net of 7 5 percent final tax

NOTE 4 - OTHER CURRENT ASSETS

This account includes the following

	1997	1998
	(In Thousand Pesos)	
Accrued Interest on Financial Assistance [a]	P 37,684	P 328
Prepaid Expenses [b]	28,449	2,282
Inventory of Supplies and Materials [c]	740	3,095
Accounts Receivable [d]	4,605	1,338
Due from Officers and Employees	260	232
Others	382	542
Total	**P 72,120**	**P 7,817**

[a] The following banks paid in full the outstanding balance of financial assistance including accrued interest a) Insular Bank (P224 million), b) Network Rural Bank of Southern Philippines (P75 million), c) Westmont Bank (P0 155 million), resulting in the decrease in accrued interest balance on financial assistance

[b] The significant decrease in Prepaid Expenses was due to the decrease in payment of final taxes brought about by the decrease in investments in treasury bills

[c] In 1998, purchase of semi-expendable supplies and material is booked under Inventory account as against previous practice of recording the same under Expense account

[d] The two more significant balances are for training expenses advanced by PDIC but reimbursable from ADB Technical Assistance grant under its training component (P629 thousand) and assessment from banks (P356 thousand) The sharp drop refers to receivable from Provident Fund in 1997 that was settled in 1998

Interest rates on financial assistance to various banks range from 4 percent for Philippine Veterans Bank to 6 percent for Westmont Bank, and interests due are accrued monthly (please refer to Note 6) P539.26 thousand or 24 percent 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/notes

	1997	1998
	(In Thousand Pesos)	
Government Securities -Treasury Bonds (Dollar)	P 207,574	P 208,100
Government Securities -Treasury Notes/Bonds (Peso)	12,055,924	17,132,991
Total	**P 12,263,498**	**P 17,341,091**

The increase in long-term investments was funded by assessments collected from member banks, interests from fixed rate treasury notes/ bonds and the shift from short-term to long-term investments

NOTE 6 - FINANCIAL ASSISTANCE TO BANKS

This account includes the following

	1997	1998
	(In Thousand Pesos)	
Loan Assistance		
Insular Savings Bank *	P 208,000	P -
Network Rural Bank of Southern Phils	75,000	-
Purchase of Assets		
Monte de Piedad and Savings Bank (Keppel Monte)	1,175,000	1,175,000
Westmont Bank *	1,317 500	1 162,500
Philippine Veterans Bank	39,901	19,951
Non-interest bearing notes of various		
Rural Banks thru Land Bank (CFIEP)	329 583	329,583
Total	P 3,144,984	P 2,687,034

Except for the Philippine Veterans Bank loan, financial assistance to other banks was for rehabilitation support, with PDIC as sole party in the case of Insular Savings Bank and Network RB of Southern Philippines (both have settled principal obligations in full as of yearend 1998) and PDIC with BSP and LBP in the case of rural banks Financial assistance to Philippine Veterans Bank is a restructured subrogated claim as mandated by law with interest rate of 4 percent per annum Monte de Piedad and Savings Bank is the first rehabilitated bank that received assistance through purchase of assets to clean up balance sheet, therefore did not involve any repurchase arrangements The purchase was funded jointly by PDIC and BSP, with PDIC share limited by least cost considerations or where cost of asset purchase is less than estimated loss in case of closure of the bank BSP share was coursed through PDIC This amount was removed from the books in 1999 in compliance with the recommendation of the Commission on Audit (see Note 7)

On 3 May 1999, the PDIC Board of Directors declared Keppel Monte Bank (former Monte de Piedad and Savings Bank) to have substantially complied with rehabilitation milestones set by the PDIC Board in May 1997 thereby rendering unnecessary previous requirements for the repurchase of assets and for appointment of a PDIC nominee Director to the Bank's Board

* As of 30 June 1998 the following have outstanding accumulated deferred interest relative to the financial assistance granted by PDIC

a) Insular Savings Bank - P126.78 million. Under PDIC Board Resolution No. 98-06-053 dated 18 June 1998, said amount has been approved for condonation subject to the Bank's attainment of rehabilitation milestones

b) Westmont Bank – P352.99 million

NOTE 7 - DUE FROM BSP – TREASURY

The BSP share of P1.175 billion in the purchase of assets of Monte de Piedad and Savings Bank was coursed through PDIC through a loan of P2.5 billion at 4 percent interest rate The balance of P1.325 billion was invested by BSP Treasury Department in government securities that will cover the cost of the P1 175 billion loan plus interest on the P2.5 billion loan This is governed by Fund Management Agreement between PDIC and BSP dated 12 December 1998 This likewise has been removed from the books in 1999

NOTE 8 - SUBROGATED CLAIMS RECEIVABLE

This account refers to claims of PDIC arising from payment of insured deposits in closed banks. On the other hand, the Subrogated Claims Receivable Assigned account represents amount of subrogated claims assigned to BSP in exchange for notes receivable from banks that availed of the Countryside Financial Institutions 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 seven years from issuance of negotiable promissory notes by LBP to the availing rural bank and collection thereon will be used to redeem the subrogated claims assigned to BSP The promissory notes were issued to various rural banks between 1992 and 1996.

This account includes the following

	1997	1998
	(In Thousand Pesos)	
Total Subrogated Claims Receivable	P 3 384.523	P 4 [illegible] 026
Less Recoveries	181,090	1 [illegible] 090
Subrogated Claims Receivable (Net)	3,203,433	4,3 [illegible] 936
Less Subrogated Claims Receivable Assigned	329,583	3 [illegible] 583
Allowance for Losses [a]	1,943,005	2,30 [illegible]
Net	**P 930,845**	**P 1,6 [illegible]**

In 1998 40 banks were ordered closed by the Monetary Boa[illegible] with closure orders implemented by PDIC in only 23 banks The re[illegible]ining 17 banks located in the Lanao provinces have been non-operation[illegible] since the 1970s/1980s but were ordered closed only in November 19[illegible] The insured status of these banks were terminated only in January 19[illegible] after PDIC was granted this power through amendment of its Charte[illegible] [illegible]e 23 closed banks had total estimated insured deposits of P2 53 billi[illegible] out of total deposits of P5 48 billion Processing of insured deposit clai[illegible] began for 18 banks during the year with the following considered big i[illegible]ms of insured deposits paid:

Closed Bank	Estimated Insured Deposits	Claims Paid
	(In Million Pesos)	
Commercial Banking Corp	834 81	421 81
d Savings and Loan Association	953 25	301.81
ne Savings and Loan Association	248 68	157.92
munity Savings and Loan Association	165 34	29 44
inconada	34 69	25.96
n Development Bank	31.33	23.26
villaba	14 77	11 78
Central Mindanao	37 85	10 71
Total	**2,320.72**	**982.69**

ing average rate of losses differentiated in terms of claims paid for each category of s, i.e , commercial, thrift and rural based on experience In 1998, same method was but no adjustments were made for time value of money

9 - FIXED ASSETS

count includes the following

	1997	1998
	(In Thousand Pesos)	
	P 26,206	P 26,206
g	146,763	146,720
ure, Fixtures, Equipment and Books	78 445	97,019
	251,414	269,945
Allowance for Depreciation	82 997	97,895
Net Book Value	**P 168,417**	**P 172,050**

Depreciation expense for 1997 and 1998 amounted to P16 3 million P15.15 million, respectively

TE 10 - OTHER ASSETS

account includes the following

	1997	1998
	(In Thousand Pesos)	
ounts Receivable Financial assistance to various banks subsequently closed [a]	P 158 084	P 158,084
ious Closed Banks-Receivership and Liquidation Expenses [b]	87 455	114,111
ovident Fund [c]	24,718	24,718
her Banks-Assessment Deficiencies [d]	12 817	12,817
ub-total	283,074	309,730
hers	3 325	2,202
tal	286 399	311,932
ss Allowance for Probable Losses	200 852	217,999
Net	**P 85.547**	**P 93.933**

This refers to financial assistance granted to various banks which failed to recover and eventually closed A 100 percent allowance is provided because these banks do not have enough assets to pay the obligations

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

This represents seed money for the regular and housing fund (P11 million, and cal fund (P13 7 million)

These are outstanding assessment deficiencies under protest by Republic Planters Bank (P0 14 million) and Citibank (P12 67 million)

NOTE 11 - CURRENT LIABILITIES

This account includes the following

	1997	1998
	(In Thousand Pesos)	
Accrued Interest Payable to BSP	P 104,317	P 119,190
Accounts Payable – Various	64,818	81,493
Others	95,938	62,525
Total	**P 265,073**	**P 263,208**

Interest on loans payable to BSP is due every 2nd day of July to mature on 02 July 2013 (please refer to Note 12) The Accounts Payable-Various refers to the amount due to various suppliers/creditors Classified under Others are a) due to officers and employees (P13.38 million), b) provision for retirement (P31 51 million), and c) dividends payable to the National Government representing 50 percent of net income for the year (P17 63 million)

NOTE 12 - LONG TERM LIABILITIES

These consist of: (a) P1.521 billion loan from BSP at 8 5 percent maturing on 2 July 2013 proceeds of which were used to service insurance claims in the 1980s (P1 450 billion) and assistance to other banks (P71 million), (b) P150 million loan from BSP at 9.9 percent used to provide financial support in the merger of several rural banks; and (c) P2 5 billion loan from BSP in connection with the rehabilitation of Monte de Piedad and Savings Bank This last item was removed from the books in early 1999 (see Notes 6 and 7)

NOTE 13 – OTHER LIABILITIES

This account includes the following

	1997	1998
	(In Thousand Pesos)	
Deferred Assessment	P 302	P 302
Deferred Service Income	7,380	11,731
Deferred Credits	-	2,356
Total	**P 7,682**	**P 14,389**

The Deferred Assessment account refers to overpayment by banks of assessment 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 and Liquidation) and shall be reversed as a reduction to operating expense upon collection Deferred Credits account refers to the contra-account of Inventory Supplies and Materials – Semi-Expendable booked as such in compliance with COA regulations

NOTE 14 - PERMANENT INSURANCE FUND

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

NOTE 15 – GROSS ASSESSMENT

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

This account includes the following

	1997	1998
	(In Thousand Pesos)	
Commercial Banks	P 2,343,570	P 2,891,882
Thrift Banks	218,132	291,061
Rural Banks	65,715	82,448
Total	**P 2,627,417**	**P 3,265,391**

NOTE 16 – OPERATING EXPENSES

Included in this account is the discount amounting to P38.23 million on the face value of assets repurchased by Westmont Bank in consideration of its meeting target milestones during rehabilitation period defined under the financial assistance agreement such as positive profitability and capital infusion

NOTE 17 – 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 of previous years, leasehold payments for office space by closed Pacific Bank, interest and penalties on late payments of assessments, dividends from PLDT, and proceeds from sale of old newspapers

NOTE 18 - 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 as follows:

Name of Bank	Assessment Deficiency	Escrow Deposits	Trustee
	(In Thousand Pesos)		
PNB – Republic Bank	643	643	Philippine National Bank
Citibank, N A [a]	281,493 [b]	281,700	Bangko Sentral ng Pilipinas
Total	**282,136**	**282,343**	

The following banks have yet to maintain escrow deposits

Name of Bank	Assessment Deficiency	Escrow Deposits	Trustee
	(In Thousand Pesos)		
Bank of America [a]	P 51,315	0	-
Hongkong and Shanghai Bank	21,293	0	-
Total	**P 72,608**		

[a] These foreign banks contested the assessability of certain liabilities considered by PDIC as deposits PDIC filed a Notice of Appeal in July 1998 after the Pasig Regional Trial Court rendered its decision in favor of these banks in June 1998

[b] Broken down as follows

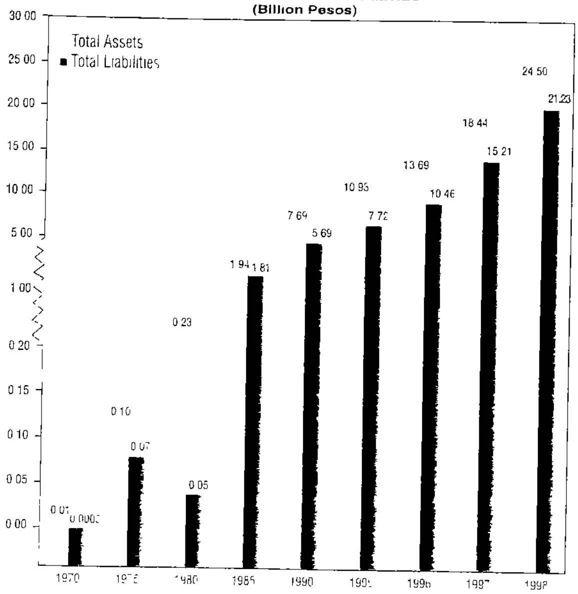
	(In Thousand Pesos)
Principal	152,034
Interest	129,459
Total	**281,493**

NOTE 19 – STATEMENT OF CONDITION OF CLOSED BANKS UNDER RECEIVERSHIP/LIQUIDATION

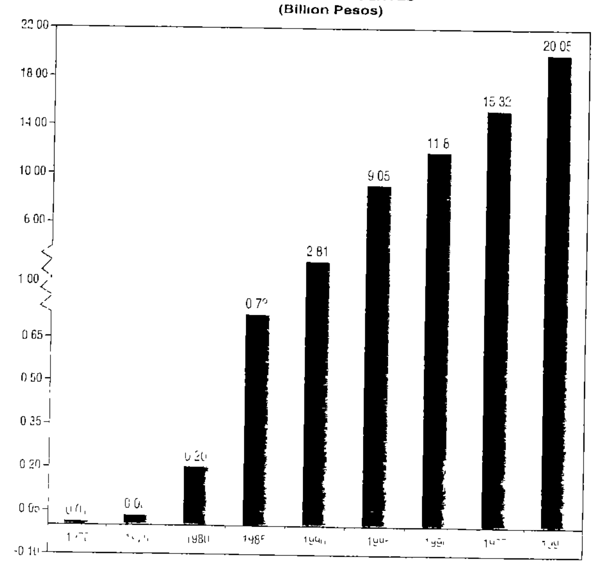
Type of Bank	No. of Closed Banks	Assets	Liabilities
		As of 31 December 1998 (In Million Pesos)	
Commercial	2	P 6 626 33	P 10 041 14
Thrift	43	6 083 21	6,387 64
Rural	287	1,731 42	2,754 28
Total	**332**	**P 14,440.96**	**P 19,183.06**

The Philippine Deposit Insurance Corporation

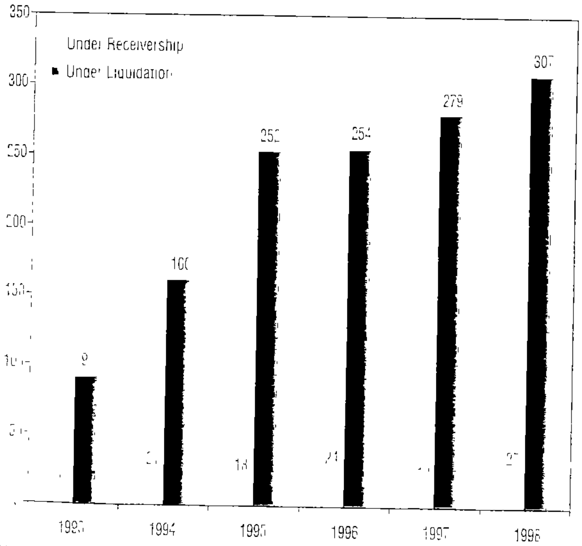
TOTAL ASSETS AND LIABILITIES
(Billion Pesos)



INSURANCE RESERVES
(Billion Pesos)



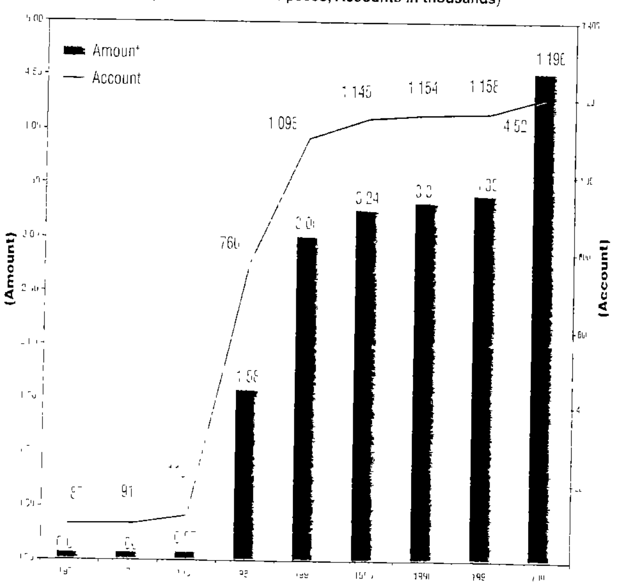
CLOSED BANKS UNDER RECEIVERSHIP/LIQUIDATION *



*PDIC ... mandatory receiver and liquidator of banks ordered closed by the Monetary Board with the amendment of its Charter in 1992

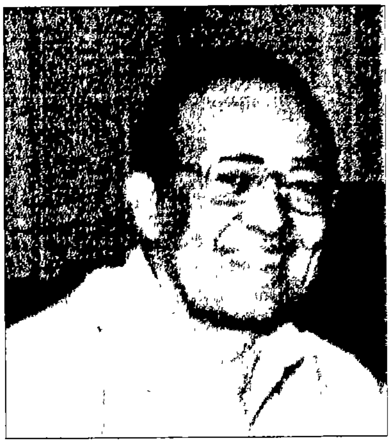
Note ... reference year

INSURED DEPOSIT CLAIMS PAID
(Amounts in billion pesos, Accounts in thousands)



PDIC PRESIDENTS

Jesus C. Razon[1]
(1964 - 1968)



Luis Tirso Rivilla[2]
(1968 - 1983)

Ernest Leung
(1994 - present)

Eugenio Nierras, Jr.[3]
(1983 - 1988)

Vitaliano N. Nañagas II
(1988 - 1994)

Assistant to the Central Bank Governor, concurrent Acting PDIC Chairman
Served as PDIC Board Chairman, concurrent President
Deputy Governor of the Central Bank, concurrent Acting PDIC President

PDIC HIGHLIGHTS, 1963-1998

1963

> PDIC Charter, Republic Act 3591 was enacted providing for
- Authorized capital as permanent insurance fund (PIF) in the amount of P5 million
- Maximum insurance coverage of P10,000 per depositor
- Three-man Board of Directors
- Voluntary membership of banks
- Extension of financial assistance to insured banks when continued operation of such banks is essential to provide banking service in the community

1964

> Republic Act 4083 appropriated P5 million from the General Fund to constitute the PDIC PIF.

> Jesus C Razon, Assistant to the Central Bank Governor, was appointed Acting PDIC Chairman

1968

> PDIC formally started its operations with the appointment of the first members of the Board of Directors
- Chairman and President Luis Tirso Rivilla
- CB Governor Alfonso Calalang
- Mr Basilio Estanislao

1969

> PDIC conducted special payoff operations in eight closed uninsured banks using the P15 million fund appropriated under Republic Act 5517

> Republic Act 6037 provided for compulsory membership of any bank or banking institution engaged in the business of receiving deposits

1970

> First payoff was conducted by PDIC under Republic Act 3591 in Rural Bank of Nabua (Camarines Sur) Inc

> PDIC started assessment of member banks total deposit liabilities at the rate of 1/18 of 1 percent

1972

> Republic Act 6426 instituted the Foreign Currency Deposit System in the Philippines and provided insurance cover for foreign currency deposits

1973

> Presidential Decree 120 raised the PIF from P5 million to P20 million

1975

> Presidential Decree 653 removed the ceiling of P100 million on aggregate borrowings of PDIC from the Central Bank for insurance purposes

1977

> The PDIC Board of Directors increased annual assessment rate from 1/18 of 1 percent to 1/15 of 1 percent of total deposit liabilities starting the semester ending 30 June 1977

1978

> Presidential Decree 1451 increased maximum insurance coverage from P10,000 to P15,000

1981

> For the first time, by virtue of Monetary Board Resolution No 459, the PDIC Chairman was appointed Liquidator of six rural banks placed under receivership by the Central Bank

1983

> Executive Order 890 reconstituted the PDIC Board of Directors with the CB Governor as Chairman, PDIC President as ex-officio Member and Deputy Minister of Finance as Member

> Eugenio Nierras,Jr , Deputy Governor of the Central Bank, was appointed Acting PDIC President

1984

> Presidential Decree 1897 increased maximum insurance coverage from P15,000 to P40,000

> Presidential Decree 1940 introduced more amendments to Republic Act 3596
- Created PDIC Provident Fund
- Excluded trust funds from insurable deposits
- Made PDIC a preferred creditor over unsecured creditors of a closed bank

1985

> Presidential Decree 1985 increased PIF from P20 million to P2 billion

> Assessment rate was increased from 1/15 of 1 percent to 1/12 of 1 percent of total deposit liabilities

1986

> For the first time, the Monetary Board designated PDIC as receiver for rural banks that were closed during the year

> Vitaliano N Nañagas II from the private sector was appointed PDIC President

1989

> World Bank approved a US $1 7 million grant to the Corporation through the Japanese Export-Import Bank Facility which provided for intensive human resource development and systems and technology upgrading

1990

> PDIC, together with the Central Bank the Land Bank of the Philippines and a World Bank Mission participated in a Rural Finance Project which focused on the evaluation of the rural banking sector and the formulation of a comprehensive strengthening program The program was envisioned for rural banks to reduce the burden of debt to the Central Bank, raise their capital, attain economies of scale, and become more competitive in the banking system

1991

> For the first time, PDIC pilot tested its examination function under a risk monitoring system devised with the assistance of SGV and Co Limited scope examinations were conducted on selected samples of commercial and thrift banks

> The Countryside Financial Institutions Enhancement Program was devised and implemented by PDIC, CB and LBP as a comprehensive program for strengthening the rural credit system, a result of the Rural Finance Project started in 1990

> The Information Systems Strategic Plan (ISSP), a comprehensive corporate-wide computerization plan that incorporates short to long term strategy that will raise the efficiency and effectivity of the different line and staff support services through information technology was implemented

1992

> Republic Act 7400 was approved on 13 April 1992, amending Republic Act 3591 with the following major provisions
- maximum deposit insurance coverage increased to P100,000 from P40,000
- increased assessment rate to 1/5 of 1 percent of total deposit liabilities from 1/12 of 1 percent effective 1993
- increased PIF to P3 0 billion from P2 0 billion
- granted PDIC the power to conduct independent examination of banks
- shortened prescriptive period for filing of claims for insured deposits to 18 months after closure instead of 18 months after order of liquidation of a closed bank
- PDIC became mandatory receiver and liquidator of banks ordered closed by the Monetary Board
- increased number of Board members from 3 to 5, with the inclusion of 2 representatives from the private sector to be appointed for a term of 6 years

1994

> Ernest Leung Acting Secretary of the Department of Finance was appointed PDIC President

1995

> The joint takeover and presettlement examination scheme was introduced to shorten claims settlement operations This scheme provided for the simultaneous takeover of the assets and affairs of a closed bank and examination of deposit accounts, activities which were previously undertaken in sequence

1996

> The joint takeover and presettlement scheme was further enhanced to include communication staff to provide depositors information on PDIC activities prior to the settlement of claims for insured deposits and basic documentary requirements for the filing of claims

> Further innovations in PDIC claims settlement operations were implemented
- insured deposits not exceeding P1 000 are paid in cash instead of the usual practice of paying all depositors in checks
- payment of claims for insured deposits of less than P500 may start promptly upon validation, without passing through the rigorous deposit examination process
- simplification of requirements for accounts of deceased depositors with balances not exceeding P5,000
- implementation of the Emergency Pay-Out Facility wherein the PDIC President, under meritorious cases, may allow the payment of claims or P5,000, whichever is lower, even before the official start of claims settlement operations in a closed bank

1997

> Computer-assisted bank audit was introduced with the use of the Audit Command Language facilitating data presentation and analysis.

> A Technical Assistance (TA) Grant from the Asian Development Bank (ADB) in the amount of US $742,000 was approved in December aimed towards capacity building of the Corporation

1998

> The ADB TA grant was implemented with the hiring of foreign and local consultants in the field of bank supervision and examination, management information systems, human resource and legal areas, resource persons from foreign counterpart deposit insurance companies were also tapped to provide expertise

> A World Bank Project amounting to $353,765 was approved in August aimed at providing consultancy services and training on claims management receivership and liquidation of closed banks through seminars, study visits and internship programs

BOARD OF DIRECTORS

Edgardo B. Espiritu

As Secretary of the Department of Finance (DoF), Mr. Espiritu also serves as Chairman of the PDIC Board of Directors and at the same time represents the Philippines as Governor to the Asian Development Bank and the World Bank Group and as Alternate Governor to the International Monetary Fund. Prior to his appointment at DoF, Mr. Espiritu was President/Chief Executive Officer of Westmont Bank.

In recognition of his performance in the banking community, Secretary Espiritu has received various citations and awards which include, among others, Outstanding Performance in the Field of Banking (1994) given by the U.P. Law Alumni Association, The Outstanding Filipino (TOFIL) in the Field of Banking (1989) from the Philippine Jaycees Senate, Banker of the Year (1987) from the Bank Administration Institute (Philippine Chapter), and Upsilon Noble and Outstanding Awards (1987) from the Upsilon Sigma Phi Alumni Association.

A member of various civic and professional organizations, Mr Espiritu completed his Bachelor of Laws from the University of the Philippines and received an Honorary Doctorate Degree in Bank Management from the University of Baguio in 1988.

Ernest Leung

Appointed 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. He spent most of his professional years with the Finance Department starting as Special Technical Assistant to the Minister of Finance, and later served as Assistant Secretary for International Monetary Affairs, and subsequently as Undersecretary. Concurrent to his position at DoF, he worked as Alternate Executive Director at the World Bank and International Monetary Fund He was Acting Secretary of Finance prior to his appointment at PDIC.

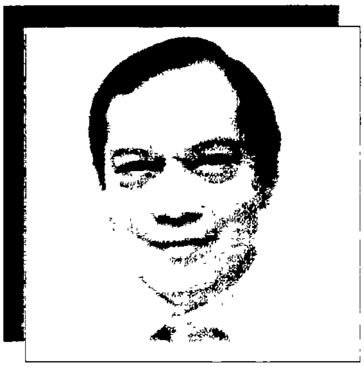
A Bachelor of Arts in Natural Science graduate of the Ateneo de Manila University, Mr Leung obtained his Master of Arts degree in Development Economics from Williams College, USA, under the Ford Foundation Fellowship.

Gabriel C. Singson

In July 1993, Mr. Singson was appointed 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 the Central Bank in 1992 to assume the post of President of the Philippine National Bank.

He holds the distinction of being named 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 placed second in the Philippine Bar Examination. He received his Master of Laws from the University of Michigan as a Dewitt Fellow and Fulbright Scholar



Cesar U. Querubin

A lawyer, banker, and businessman, Mr. Querubin sits as Director in various corporations.

Mr. Querubin previously served as Executive Vice President of Citytrust Banking Corporation, President and Chief Executive Officer of the Boston Bank of the Philippines (now Bank of Commerce); Chairman of Penta Capital Investment Corporation, and Vice Chairman of Penta Capital Finance Corporation. He was a Director of the Bankers Association of the Philippines (BAP) for several years He also provided consultancy services to the Bangko Sentral ng Pilipinas and Bank of Southeast Asia

Aside from his banking experience, Mr. Querubin was a Bar Examiner, once in Taxation and twice in Mercantile Law. He spent fifteen years in the teaching profession, having served as professor and special lecturer in law, banking and finance, economics and business management in several law schools and universities.

Cesar S. Arnaldo

Mr Arnaldo is currently Chairman and President of the Cavite Agro-Industrial and Development Corporation and C.F. Arnaldo, Inc. and Director of Himlayang Pilipino, Inc Prior to his appointment at PDIC, he was Chairman and President of the Rural Bank of General Trias, Inc

He is a recipient of many awards which include among others, 1966 Businessman of the Year by the Radio and TV Broadcasters of the Philippines, Most Distinguished Alumni, and Most Outstanding Citizen of General Trias in 1981.

A Bachelor of Science in Commerce graduate of the University of Sto. Tomas, Mr. Arnaldo obtained his Master in Business Administration from the New York University.

LIST OF OFFICERS*

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 III

Office of the Corporate Board Secretary

ANN CLAIRE C. CABOCHAN
Corporate Board Secretary V

VICTORIA P. MARTINEZ
Corporate Executive Officer II

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
Assistant Department Manager 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 DE ONON-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

MARILOU G. MIRANDA
Corporate Executive Officer I

LEGAL AFFAIRS SECTOR

Office of the Vice President-
Legal Services

MANUEL LINO G. FAELNAR
Vice President

Legal Services for Operations Center

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
Department Manager III

MARIE HAZEL V. CIRIACO
Attorney IV

MA. LUISA R. MIRANDA
Legal Officer IV

Office of the Vice President-
Litigation and Investigation Services

PABLO Y. ROMERO, JR.
Vice President

R & L Litigation Center

MA. ANTONETTE B. BOLIVAR
Assistant Department Manager II

NANCY L. SEVILLA
Attorney IV

MARIVIC C. ARRIOLA
Attorney IV

MELVYN M. GONZALES
Legal Officer IV

RICARDO C. ESTRABO
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.
Department Manager III

RICARDO D. ANTONIO
Corporate Executive Officer I

SUSANNA R. CAROLINO
Corporate Executive Officer I

HERNANDO L. CATIGBE
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

Office of the Vice President-
Field Examination

NOEMI R. JAVIER
Vice President

POLO L. PANTALEON
Corporate Executive Officer II

Field Examination Center I

ANITA R. GONGON
Assistant Department Manager II

MA. LUCILA H. REYES
Corporate Executive Officer I

HERMINIA S. MORALES
Corporate Executive Officer I

Field Examination Center II

ALTEO C. MALABUYOC
Assistant Department Manager II

SHIRLEY G. FELIX
Corporate Executive Officer I

Office of the Vice President-
Special Actions and Assistance

RESCINA S. BHAGWANI
Vice President

CAROLINE LORETO E. VASQUEZ
Corporate Executive Officer II

Financial Assistance Management Center

MA. ANA CARMELA L. VILLEGAS
Department Manager III

JOSEFINA J. VELILLA
Assistant Department Manager II

MA. ROSARIO T. MOJICA
Corporate Executive Officer I

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

NERILYN O. ABOGADO
Corporate Executive Officer I

Claims Settlement Center

TEODORO E. GALLARDO
Department Manager III

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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

R & L Takeover Center
TEODORO JOSE D. HIRANG
Department Manager III
FERDINAND M. BELUAN
Assistant Department Manager II
ELMER JUAN C. HABER
Corporate Executive Officer I

Asset Administration and Recovery Center I
RENATO N. PULIDO
Assistant Department Manager II
BENEFICO M. MAGDAY
Assistant Department Manager II
ANTONIO V. MARQUEZ
Assistant Department Manager II
ANGEL B. OBRERO
Assistant Department Manager II
ZOSIMA D. LACONSAY
Corporate Executive Officer I
BERNARDO A. TABUGADER
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
TERESA H. GARCIA
Assistant Department Manager II

CORPORATE SERVICES SECTOR

Office of the Senior Vice President-Corporate Services
VIRGINIA P. CASTILLO
Senior Vice President

Office of the Vice President-Finance
MA. ELENA E. BIENVENIDA
Vice President
GLORIA M. VILLANUEVA
Division Chief III

Treasury Center
JOSEFINA G. COLIGADO
Department Manager III
MERLIE M. CAÑAVERAL
Assistant Department Manager II
RUTH A. REFRAN
Corporate Executive Officer I
MA. GINA G. MARTOS
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

Office of the Vice President- Human Resource/ Internal Services Management
LOURDES B. ABADA
Vice President
ASUNCION S. CALAPAN
Corporate Executive Officer I
JUAN V. LANTING
Division Chief III

Human Resource Management Center
DOMINGO Y. REYES, JR.
Department Manager III
ELISEO R. RAMALLOSA
Assistant Department Manager II
ROSARIO F. ADVIENTO
Corporate Executive Officer II
ARACELI H. TABAC
Corporate Executive Officer I
VIRGILIO C. ESTANISLAO
Division Chief III

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
Board of Trustees

RICARDO M. TAN	*Chairman*
PABLO Y ROMERO, JR.	*Vice Chairman*
JOCELYN J. NEPOMUCENO	*Trustee*
BALDWIN L. SYKIMTE	*Member*
ISMAEL C SANTILLAN	*Member*
SIMEON B. KASALA, JR	*Accountant*

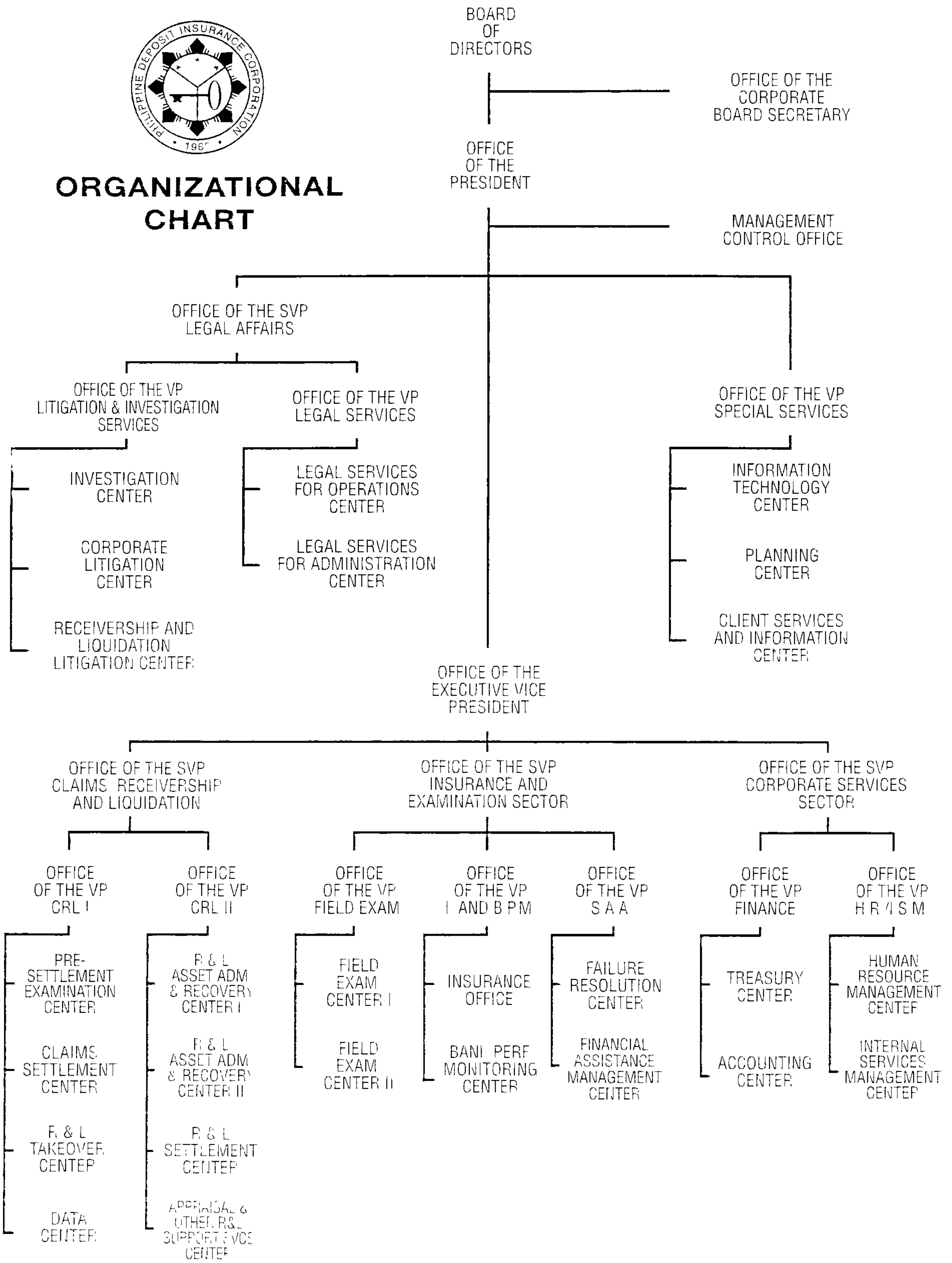
PDIC Employees' Organization
(PHILDICEO)

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 Chairm*
ESTER B BINALLA	*Secretary*
CATHERINE F. BAMBA	*Board Memb*
IMELDA R. SALGADO	*Board Memb*
ZOSIMA D LACONSAY	*Board Memb*
ERIBERTO B MAGBUHAT	*Board Memb*

ORGANIZATIONAL CHART



Revised CRL Organizational Structure
(Office Order # 1 series 1996 Eff. 1/15/96)

S.A.A - Special Actions and Assistance
I B PM - Insurance and Bank Performance Monitoring
H R /I.S M - Human Resource/Internal Services Management