Annual Report 2002

Enhancing Depositor Protection

Vision

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

The PDIC employee, an epitome of exemplary public service.

Mission

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

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

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

Beliefs

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

Improvement of service delivery is a continuing commitment; and

People are our most important resource.

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PHILIPPINE DEPOSIT INSURANCE CORPORATION

RICARDO M. TAN
President and Chief Executive Officer

May 2003

HER EXCELLENCY
PRESIDENT GLORIA MACAPAGAL- ARROYO
Malacañang Palace, Manila

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

Dear Madame President:

I have the honor to submit the Annual Report of the Philippine Deposit Insurance Corporation for the year 2002. The Report features the performance and results of operations of the Corporation in strengthening and maintaining confidence in the stability of the banking system, while giving recognition to the commitment and dedication of PDIC employees in rendering excellent public service.

The PDIC Board of Directors, management and staff thank Her Excellency for her unrelenting support as PDIC remains committed in protecting small, unsophisticated depositors.

Very truly yours,

PHILIPPINE DEPOSIT INSURANCE CORPORATION

RICARDO M. TAN
President and Chief Executive Officer

May 2003

Honorable FRANKLIN M. DRILON
President of the Philippine Senate

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

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

Gentlemen:

I have the honor to submit the 2002 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 and results of operations of the Corporation in strengthening and maintaining confidence in the stability of the banking system.

On behalf of the directors of the PDIC Board, management, and staff, I thank the legislative branch of government for its commitment to institute genuine and meaningful reforms in the banking industry that would enhance depositor protection.

Very truly yours,

The President's Report

Challenges led to strength

The Philippine Deposit Insurance Corporation has confronted a number of challenges in the wake of a volatile economic environment. Lessons drawn from these have enabled PDIC to strengthen its capability to more vigorously pursue depositor protection and sustain public confidence in the stability of the banking system. The continuous enhancement of operational processes not only in claims settlement and liquidation operations, but also in bank strengthening and failure resolution efforts has become imperative, given the increasingly complex demands in the banking industry. In the same vein, the Corporation has stepped up its public awareness efforts to empower the public with the right information for greater depositor protection.

Claims settlement shortened

A most significant achievement of the Corporation in 2002 is the marked improvement in insurance claims settlement turn-around-time to 44 days from 76 days in 2001.

Number of banks reached 419

Total number of banks under PDIC receivership/liquidation reached 419 by yearend 2002 (i.e., 2 commercial, 52 thrift and 365 rural banks), with combined estimated realizable value of assets of P15.59 billion as against liabilities of about P35 billion.

Financial assistance vs. cost of closure

As an alternative to incurring losses from claims payment due to bank closure, plus liquidation expenses net of proceeds of liquidation, the Corporation extended financial assistance to 8 banks in 2002, through direct loan and purchase of assets. Financial assistance as of yearend 2002 stood at P43.84 billion involving 17 banks, including banks in countryside given loan incentive for merger, and consolidation and acquisition totaling P386 million extended under the Countryside Financial Institutions Enhancement Program (CFIEP).

PDIC continues to build up its Deposit Insurance Fund (DIF), which, as of yearend has reached P36.71 billion. This is composed of the permanent insurance fund (PIF) as the seed capital from the National Government amounting to P3 billion; accumulated reserves or estimated insurance losses of P31.43 billion; and retained earnings of P2.28 billion. Increased assessment collections, as well as prudent investment strategy and expenditure management, enabled the Corporation to generate higher earnings to build up the DIF.

Dividends to NG reached P6B

The Corporation likewise continues to support the government's revenue generation campaign through regular remittance of dividends. In 2002, PDIC remitted P1.25 billion in dividends from net income, P0.25 billion of which represented the balance of 2001 dividends, while P1.0 billion represented advanced cash dividends for 2002.[1] For 2000-2002, PDIC's dividend payments to the national government have reached P6 billion.

For 2002, PDIC also remitted to the national government, Bangko Sentral ng Pilipinas (BSP) and Central Bank-Board of Liquidators liquidating and surplus dividends from closed banks amounting to P179.9 million.

International linkages

PDIC continues to strengthen its linkages with the BSP and banking industry associations. Likewise, it fosters closer relationship with peer deposit insurance agencies to keep abreast of current developments deemed essential to policy formulation and decision-making, and attuned to best practices in deposit insurance. In May 2002, PDIC became a founding member of the International Association of Deposit Insurers (IADI)

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[1] PDIC declared P2.0 billion in dividends annually in 2001 & 2002: P1.75 billion from 2001 income was remitted in the same year. The balance of P1.0 billion from 2002 income will be remitted in 2003.

established in Basel, Switzerland and I was elected to the Executive Committee. The Corporation keeps its door open and participates actively in various international fora to allow opportunities for exchange of information and sharing of experiences and practices in deposit insurance.

Upgrading of technology & skills

The Corporation continues to enhance existing application systems and information and communication technologies to keep pace with the rapid changes in the banking industry. At the same time, upgrading the technical and managerial skills of its personnel remains a priority. In 2002, PDIC spent a total of P4.48 million, for training programs under the Master Training Plan geared towards attaining excellence in delivery of services. Two seminars on Values Enhancement Program were also conducted in 2002.

Foremost : depositors

PDIC remains steadfast in its commitment to protect the rights and interest of depositors, notwithstanding operational limitations and in some cases legal constraints. We hope that in this critical period when changes in the financial landscape can undermine the stability and viability of the system, PDIC's attempts at legislative reforms to strengthen its capabilities, particularly in minimizing its insurance risks, would be realized soon.

Social responsiveness

As a government institution, PDIC's commitment extends beyond depositor protection. The Corporation is also committed to provide support in promoting sustainable development and improved quality of life for Filipinos. PDIC's social responsibility initiatives continue in the areas of education, social welfare, poverty alleviation, livelihood programs and environmental conservation. Twenty-four landless families in Novaliches were assisted in acquiring a foreclosed lot of the closed Development Bank of Rizal through PDIC's coordination with the National Home Mortgage Finance Corporation (NHMFC) and the local government of Quezon City under the NHMFC's Community Mortgage Program. The Corporation also commits to provide technical assistance to the Centralized Cooperative Financial System, a facility designed to make cooperative-led enterprises strong and competitive for the benefit of its poor members.

Modest donations were made to various institutions in support of priority thrusts of the government to provide assistance to the handicapped, destitute and marginalized segment of society. In the area of environmental protection and conservation, PDIC co-sponsored programs in proper waste management and promotion of clean and green environment.

Thanks for your support

As PDIC moves closer to its 40th year, it may be fitting to review what has transpired in pursuit of a stronger, more viable and responsive deposit insurer and receiver/liquidator of closed banks.

On a personal note, I found my two and a half years as President and CEO of PDIC most fulfilling, not only because of what we have achieved in providing depositor protection, but more importantly because I believe PDIC shines even brighter as an epitome of public service.

Let me take this opportunity to thank my colleagues in the banking community and most of all the PDIC staff for their commitment and cooperation, which made my service in government through the Corporation deeply meaningful and rewarding.

NORBERTO C. NAZARENO*

** Norberto C. Nazareno resigned as President and CEO in November 2002 due to health reasons. He now serves as private sector representative to the PDIC Board of Directors.*

The Economy and the Banking System

Economic Performance

The Philippine economy sustained its growth momentum despite prevailing domestic uncertainties and continuing weakness in the global economy. The country's Gross Domestic Product (GDP) grew 4.4 percent from 3.2 percent posted in 2001. Services contributed the biggest share to domestic output among the major economic sectors and remained the strongest sector, especially transport, communication and storage, and trade. Industry was second with robust gains posted by the manufacturing, and mining and quarrying sub-sectors while agriculture contributed 19.7 percent to domestic output for the year. With the acceleration of net factor incomes from abroad, Gross National Product (GNP) expanded by 4.5 percent compared to 3.4 percent in 2001.

Gross Domestic Product by Industrial Origin, 2000 to 2002
Percent Share to GDP at Constant 1985 Prices

Sector	Share to GDP		
	2000	2001	2002
Agriculture, Fishery & Forestry	19.9%	19.9%	19.7%
Industry	34.7%	34.8%	34.5%
Services	45.4%	45.3%	45.8%
GDP	100.0%	100.0%	100.0%

Source: NSCB

Gross Domestic Product by Industrial Origin, 2000 to 2002
Growth Rates at Constant 1985 Prices

Sector	Share to GDP		
	2000	2001	2002
Agriculture, Fishery & Forestry	3.4%	3.7%	3.3%
Industry	4.9%	1.3%	3.7%
Services	4.4%	4.4%	5.4%
GDP	4.4%	3.2%	4.4%
GNP	4.8%	3.4%	4.5%

Source: NSCB

Strong domestic consumption, fueled by increased remittances from overseas Filipino workers, drove economic expansion in 2002. Higher disposable incomes and mild inflation boosted household spending to the advantage of sectors catering to the consumer. Retail trade, communication, food manufacturing, footwear and wearing apparel, beverage, tobacco, textile, palay, livestock and poultry all posted higher growth rates during the year.

Government economic managers were able to keep prices and interest rates on course, despite the growing fiscal deficit. The inflation rate slowed down considerably in 2002 with average inflation falling to 3.1 percent from 6.1 percent in 2001. Interest rates likewise dropped as Treasury Bill rates across all tenors declined significantly during the year. The benchmark 91-day T-bill rate averaged 5.4 percent for the year, down from 9.9 percent in 2001.

The peso reversed its course mid-way in 2002. It strengthened against the US dollar from January to May as its value appreciated from P51.4 per US dollar in January to P49.8 per US dollar in May. However, in June, the peso began to depreciate reaching its low at year-end with an exchange rate of P53.60 per dollar.

A more competitive exchange rate and a mild recovery in the global demand for semi-conductors and electronics, contributed to the improvement in the country's overall Balance of Payments (BOP) position. A BOP surplus of US$660 million was posted, a turn-around from the previous year's deficit of US$192 million, as the trade balance improved with a recovery in merchandise exports.

In the meantime, the challenge for government is to keep itself on track in implementing much needed economic and fiscal reforms to sustain growth on the road to 2003.

The Banking Industry

As the economy sustained its expansion, the banking industry saw growth in deposit and loans for the year. Total resources of the banking system reached P3.48 trillion as of yearend 2002, posting a 6.3 percent increase over the 1.0 percent growth in 2001. Although banks remained to be cautious lenders, loans managed to grow by a modest 2.9 percent to P1.86 trillion, in contrast to the flat growth rate in 2001. But as in the past several years, growth rate of short-term securities outstripped that of loans as banks continued to be risk averse by engaging more in the trade of these securities as opposed to the grant of new loans. Marketable securities increased by 14.0 percent. As a result, quick assets to total deposits ratio improved to 35.1 percent as of yearend 2002 from 33.4 percent.

Level of bad loans declined by 2.7 percent, thereby improving non-performing loan (NPL) ratio to 15.5 percent from 16.4 percent in 2001. However, improvement in the NPL ratio has been due at least in part to the adoption of a more relaxed definition of NPLs. Per recent regulation, loans classified as "Loss" which have been fully provisioned for may be excluded from non-performing classification.

ROPOA, increased by 13.4 percent to its highest level yet of P217.58 billion, while restructured loans increased by 12.6 percent to P132.43 billion. Nevertheless, reserve provisioning in 2002 continued to build up as total allowance to non-performing assets (NPA) ratio increased from 30.3 percent to 32.4 percent. NPA to total assets ratio improved by 0.4 percentage points to 14.5 percent from 14.9 percent due to the broadening in asset base.

Deposit increase constituted the main driver of asset growth as total deposits grew by 7.0 percent reaching P2.35 trillion as of yearend 2002. Rural banks exhibited the highest growth rate in deposits at 16.4 percent. Thrift bank deposits grew at 7.7 percent while commercial banks at 6.7 percent.

Net income nearly doubled from its 2001 level to P26.28 billion with non-interest income from trading activities accounting for the majority of the increase. Return on assets (ROA) improved from 0.4 to 0.8 percent, while return on equity (ROE) from 3.1 to 5.8 percent. Efficiency of operations was maintained, evidenced by the flat operating expenses and provisions to total assets ratio of 4.2 percent year-on-year. Quality of earnings improved given less reliance on non-recurring income, as shown in the marked reduction in the ratio of non-operating income to net income before tax from 65.5 percent to 21.7 percent. Significantly, thrift banks made a turnaround after incurring net losses in the past two years.

Capital for the banking industry increased by 4.2 percent to P464.34 billion year-on-year due to profitable operations translating to an average capital adequacy ratio (CAR) of 16 percent, higher than the 2001 industry CAR of 14.9 percent*. The ratio stood at 17.8 percent for rural banks, 21.2 percent for thrift banks and 15.4 percent for commercial banks in 2002. Industry capacity to absorb bad debts likewise deepened with the improvement of the NPL to capital ratio from 58.6 percent to 54.1 percent.

A total of 13 banks, comprising 11 rural banks and two thrift banks were closed in 2002. During the year, regulators approved 12 mergers/consolidations/acquisitions involving 23 banks as the industry continued to consolidate. As a result, the number of PDIC member banks declined by 17 to 909.

* *The weighted average of the computed Capital Adequacy Ratio (CAR) for commercial banks, thrift banks & rural banks is used to derive entire banking industry's CAR. For commercial banks and thrift banks, CAR refers to the Risk-Based Capital Adequacy Ratio (RBCAR) defined as Total Qualifying Capital to Risk-Weighted Assets, which is sourced from RBCAR report submitted by member banks. For rural banks, CAR refers to Capital to Risk Assets Ratio (commonly referred to as Risk Assets Ratio or RAR), whereby Capital is Booked Capital per submitted Consolidated Statement of Condition (CSOC) net of Appraisal Increment Reserves, Deferred Income Tax, Goodwill, and Unsecured DOSRI, while Risk Assets is Total Assets per CSOC net of Non-Risk Assets (i.e. Cash on Hand, Due from BSP, Due from Philippine Clearing House Corporation (PCHC), TAS Investments, IBODI-Government, Bank Premises and Deferred Income Tax), Goodwill and Unsecured DOSRI*

The Economy and the Banking System

SELECTED INDICATORS ON THE PHILIPPINE BANKING SYSTEM[1], 2000-2002
Amounts in Billion Pesos

Indicators	2000	2001	2002
Statement of Condition			
Quick Assets[2]	686.19	734.29	825.98
Gross Loans	1,804.11	1,804.61	1,857.12
Non-Performing Loans	*258.39*	*295.72*	*287.65*
Bank Premises	102.33	99.89	97.76
Real and Other Properties Owned or Acquired (ROPOA)	157.68	191.91	217.58
Other Assets	486.64	440.37	478.55
Assets	3,236.95	3,271.07	3,477.01
Deposits	2,085.10	2,199.51	2,353.49
Borrowings	424.48	359.34	362.71
Other Liabilities	289.17	266.84	296.46
Liabilities	2,798.74	2,825.68	3,012.67
Capital	438.21	445.39	464.34
Income & Expense			
Interest Income	235.17	249.01	198.63
Interest Expense	145.10	157.13	101.75
Net Interest Income	90.08	91.88	96.87
Net Operating Income	5.38	5.25	21.48
Net Income Before Tax	13.66	15.23	27.42
Net Income After Tax	11.74	13.60	26.28
Selected Ratios (%)			
Capital Adequacy			
Capital/Risk Assets[3]	13.8	14.1	13.7
Risk-Based Capital Adequacy Ratio[4]	13.8	14.9	16.0
Non-Performing Loans/Capital[5]	53.0	58.6	54.1
Non-Performing Assets/Capital[6]	85.3	96.6	95.1
Asset Quality			
Non-Performing Loans/Gross Loans	14.3	16.4	15.5
Non-Performing Assets/Total Assets	12.9	14.9	14.5
Loan Loss Provision/Non-Performing Loans	45.4	47.2	53.0
Total Allowance/Non-Performing Assets	29.3	30.3	32.4
Profitability			
Net Income After Tax/Average Equity (ROE)	2.7	3.1	5.8
Net Income After Tax/Average Assets (ROA)	0.4	0.4	0.8
Net Interest Income/Average Interest Earning Assets[7] (Net Interest Margin)	3.7	3.8	3.8
Effective Spread on Loans (Yield on Loans - Deposit Cost)	5.3	5.4	5.0
Other Operating Expense+Provisions/Net Interest Income+ Other Operating Income (Efficiency Ratio)	96.0	96.3	87.0
Other Operating Expense+Provisions/Average Total Assets	4.1	4.3	4.2
Liquidity			
Quick Assets/Total Deposits	32.9	33.4	35.1
Gross Loans/Total Deposits	86.5	82.0	78.9
Gross Loans/Total Deposits+Borrowings	71.9	70.5	68.4
No. of PDIC Member Banks	939	926	909

1 Data include accounts in overseas branches of Philippine banks
2 Comprised of Cash on Hand, Cash and Other Cash Items (COCI), Due from BSP, Due from Banks, Trading Account Securities (TAS), Available Securities for Sale (ASS) and Investments in Bonds & Other Debt Instruments (IBODI) - Government.
3 In computing Capital to Risk Assets Ratio, Capital is net of Appraisal Increment Reserves, Net Unrealized Gain on Securities Available for Sale (NUG-SAS), Deferred Income Tax, Goodwill and Unsecured DOSRI while Risk Assets are net of Goodwill, Unsecured DOSRI and Accum. Market Gain on private issuances (i.e. Underwriting Debt & Equity Securities Purchased, Avail. Securities for Sale (ASS) excluding AMG-ASS-Gov't. (Risk Assets are Total Assets less Non-Risk Assets. Non-Risk Assets include Cash on Hand, Due from BSP, Due from FCHC, TAS Investments, ASS-Govt, IBODI-Government, Bank Premises and Deferred Income Tax)
4 Directly sourced from Risk-Based Capital Adequacy Ratio report (RBCAR) submitted by member banks. If data on RBCAR is not available, Capital to Risk Assets Ratio as defined under footnote #3 is used.
5 Non-Performing Loans (NPL) reported by banks as defined under BSP Circ. No.202 dtd 5/27/99, w/c include certain restructured loans classified as non-performing while Capital is net of Appraisal Increment, Net Unrealized Gain on Securities Available for Sale (SAS), Deferred Income Tax and Goodwill plus Total Allowance. If data on NPL is not available, sum of Past Due Loans & Items in Litigation is used
6 Non-Performing Assets (NPA) include Non-Performing Loans (per BSP Cir. 202) and ROPOA (Gross) while Capital is defined under footnote #5
7 Interest Earning Assets include Due from Banks, Due from BSP, Due from FCHC, TAS, ASS, IBODI and Current Loans

Source of Data: Consolidated Financial Statements submitted by member banks

Deposit Insurance

Membership in PDIC is compulsory for all banks - commercial banks (KBs); thrift banks (TBs) i.e., savings and loan associations, savings and mortgage banks and private development banks; rural banks (RBs); and branches of foreign banks in the Philippines. All deposit accounts in member banks are insured up to a maximum of P100,000 per depositor per bank.

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

With the growing risk exposure of PDIC in terms of the increasing amount in insured deposits, building up PDIC's deposit insurance fund becomes a foremost concern to enable the Corporation to meet its obligations in the event of bank failure.

Total Deposits and Deposits at Risk

Total domestic deposits in 909 member banks amounted to P2.35 trillion, 6.8 percent higher than the P2.19 trillion worth of deposits in 2001, involving around 27.14 million accounts, which is 2.3 percent higher in terms of deposit accounts. Estimated insured deposits stood at P445.85 billion, 6.8 percent higher than previous year level, and accounting for 19.1 percent of total deposit liabilities in the system. About 91.6 percent of total deposit accounts worth P217.42 billion is estimated to be fully insured, i.e., accounts with deposit balances not exceeding the maximum insurance cover of P100,000.

In 2002, 59.5 percent of rural banks' total deposit liabilities was covered by insurance. The proportion of insured deposit amount to total deposits in thrift banks was 27.3 percent, while that in commercial banks was much lower at 17.3 percent. Some 97.8 percent of rural banks' total deposit accounts were fully insured, followed by 91.8 percent for thrift banks and 90.0 percent for commercial banks.

TOTAL / INSURED DEPOSITS & CORRESPONDING ASSESSMENT IN PDIC MEMBER BANKS, 2000-2002
Amounts in Million Pesos

	Commercial Banks	Thrift Banks	Rural Banks	Total
2000				
Member Banks	45	112	782	939
Total Deposits				
Accounts	17,192,065	2,848,073	4,495,220	24,535,358
Amount	1,889,283	140,313	41,343	2,070,939
Insured Deposits	313,167	44,026	26,136	383,329
Assessment Remitted	3,421.10	261.36	75.66	3,758.12
Insured to Total	16.6%	31.4%	63.2%	18.5%
Assessment to Insured	1.1%	0.6%	0.3%	1.0%
2001				
Member Banks	45	105	776	926
Total Deposits				
Accounts	19,043,658	2,841,587	4,642,546	26,527,791
Amount	1,980,642	160,456	47,051	2,188,150
Insured Deposits	343,351	45,111	29,067	417,529
Assessment Remitted	3,777.88	288.58	84.89	4,151.35
Insured to Total	17.3%	28.1%	61.8%	19.1%
Assessment to Insured	1.1%	0.6%	0.3%	1.0%
2002				
Member Banks	42	94	773	909
Total Deposits				
Accounts	19,631,071	2,729,371	4,776,306	27,136,748
Amount	2,112,040	172,767	54,731	2,339,538
Insured Deposits	366,203	47,091	32,558	445,852
Assessment Remitted	4,001.65	337.93	96.56	4,436.14
Insured to Total	17.3%	27.3%	59.5%	19.1%
Assessment to Insured	1.1%	0.7%	0.3%	1.0%

Note: Data covers domestic deposits in Philippine banks; deposits in foreign branches of Philippine banks are excluded.
Source of Data: Bank Performance Monitoring Department and PDIC Financial Statements

Funding Sources

PDIC is funded from the capital infusion of government in the form of a permanent insurance fund (PIF), and assessments collected from member banks. From the initial authorized PIF of P5 million in 1963, the government has increased its share in PIF to P20 million in 1973, P2 billion in 1985, up to the present fund of P3 billion, as provided for in the 1992 Charter amendment and fully paid up in 1994.

For 2002, total assessment collections amounted to P4.44 billion, including assessment deficiencies collected and overpayments applied during the year. Total collection was 6.9 percent higher than the previous year's P4.15 billion. Assessment collection from specialized government and private commercial banks, including domestic branches of foreign banks accounts for 90.2 percent of total collection, with remittances of thrift banks and rural banks make up for 7.6 percent and 2.2 percent of total assessment collection, respectively.

Given the ratio of assessment collections of rural banks versus their total deposits, it is evident that rural banks carry the lowest cost of insurance protection compared to thrift and commercial banks. For every P100 insured deposits covered, rural banks pay the corresponding assessment of P0.30. This is significantly lower compared to commercial banks which pay about P1.10 for every P100 insured deposits.

From the annual assessment collected from member banks, PDIC sets aside resources/reserves to cover losses likely to be incurred from bank closures. The provisioning methodology in coming up with accumulated reserves or estimated insurance losses (EIL) is based on the annual evaluation of risk profile of individual banks, the assigned probabilities of closure based on said profile, and the corresponding estimated losses and recoveries in case of failure.

The PIF, together with the EIL, retained earnings, and donated/contingent surplus constitute PDIC's Deposit Insurance Fund (DIF), which is used to pay insured deposit claims or extend financial assistance to banks to avoid incurring cost of closure. By yearend 2002, DIF covered 1.6 percent of total domestic deposits, which is 8.2 percent of total insured deposits.

Primary funding sources available to PDIC include borrowings from BSP or banking institutions designated as depository or fiscal agents of the government. Other funding sources on the other hand, include the issuance of bonds, debentures and other forms of obligations, subject to approval of the Office of the President of the Philippines.

DEPOSIT INSURANCE FUND VS. INSURED DEPOSITS, 2000-2002
Yearend Position
Amount in Million Pesos

	2000	2001	2002
Deposit Insurance Fund (DIF)	27,196	31,501	36,709
Permanent Insurance Fund	3,000	3,000	3,000
Estimated Insurance Losses	23,893	28,133	31,427
Retained Earnings	302	367	2,281
Donated Surplus	0.5	0.5	0.5
Contingent Surplus	0.4	0.4	0.5
Total Deposits (TD)	2,070,939	2,190,149	2,339,538
Insured Deposits (ID)	383,329	417,529	445,852
DIF/ID	7.1%	7.5%	8.2%
DIF/TD	1.3%	1.4%	1.6%

RISK MANAGEMENT

In promoting confidence and helping maintain stability in the banking system, the Corporation does not only assume the role of an insurer but also that of a risk minimizer. To achieve this, PDIC monitors the financial condition of member banks and intervenes when necessary to protect the interests of depositors and minimize loss to the Deposit Insurance Fund.

Monitoring Member Banks' Performance

With the PDIC on-site examination powers repealed, bank performance is monitored through off-site evaluation. Data are primarily sourced from financial reports periodically submitted by member banks and complemented by latest available on-site examination findings shared by the BSP, and other reliable information gathered from various credit rating agencies and bureaus. The off-site evaluation starts off from a macro perspective where all member banks are rated from a scale of 1 to 5, with 1 indicating the lowest operating performance, the highest failure probability, and greatest risk to PDIC's reserves; and 5, reflecting the least risk and the highest level of operating performance.

Models in risk rating PDIC member banks were internally developed. The Bank Monitor (BM) was developed in the mid 90s mainly based on capital adequacy with minimal regard to the combined affect of other financial areas that could potentially affect bank solvency. The same benchmarks as basis for assessing bank condition were uniformly applied for all bank types. BM benchmarks were based on operating results of selected banks as a representation of the entire industry's condition and performance.

In 2002, the BM was replaced by the Off-site Bank Rating Model (OBRM) which provides a more comprehensive assessment of each member bank's present condition and performance with more factors considered in the overall risk rating. OBRM benchmarks are based on a 5-year historical trend of the entire industry performance using commonly applied ratios to measure soundness and viability. Aside from capital adequacy, other quantitative factors (i.e. asset quality, earnings, efficiency, liquidity and growth) are all taken into account in the overall rating. OBRM also provides an assessment of Management's risk appetite based on pre-identified qualitative findings sourced from BSP on-site examination reports and accessible reviews conducted by credit rating agencies. Peer group evaluation is likewise considered as separate benchmarks are formulated for each bank type (i.e. commercial, thrift and rural). These benchmarks were systematically determined using a statistical method and software.

The OBRM rating scale of 1 to 5 is described as follows:

OBRM Rating	Description
5	Very satisfactory. Strong in all aspects
4	Satisfactory. Generally strong but with some minor weakness/es cited in not more two evaluation factors which may be addressed in the normal course of operation
3	Fair. Major weaknesses are present in more than one evaluation factor and probability to further deteriorate is high.
2	Weak. With inordinate number of serious weaknesses that should be immediately addressed
1	Unsatisfactory. Weaknesses have developed into a magnitude where it is almost impossible for the bank to resolve on its own without third party intervention / support.

From a macro evaluation based on a rating system, banks rated 3 and below with apparent major weaknesses flagged down by the rating model are subjected to an in-depth (micro) off-site analysis. Given the volume of banks under these categories vis-à-vis the limited number of PDIC analysts, banks for in-depth review follow an order of priority. Generally, salvageable banks with high risk exposure to PDIC are prioritized.

For the in-depth analysis, a 6-year financial spreadsheet is generated to evaluate trends in account and ratio movements to establish basis for banks' deteriorated condition. At times, PDIC and senior officials of the bank discuss off-site findings and recent initiatives of bank management. Conference with bank's management is also an avenue for PDIC to better understand the bank's strategies, policies, procedures and desired objectives. When the bank is unable to adequately address significant findings during the management conference, the off-site evaluation is reported to the PDIC Board and later shared with BSP for further action. It is at this stage where close coordination with the BSP is important as PDIC intervention through financial assistance may be explored as a failure resolution alternative.

Management of Distressed Banks

PDIC is authorized to extend financial assistance to a distressed bank to prevent closure or to a closed insured bank to restore its normal operations, upon determination that such bank is vital to the community or essential to maintain financial stability. However, the optimal cost resolution principle must be observed wherein the cost of assistance to PDIC must not be more than the estimated cost of closure. Such assistance may be in the form of loan, deposit placement, purchase of assets, or assumption of liabilities. PDIC may likewise extend financial assistance to any corporation acquiring an insured bank in danger of closing by taking on the role of a "white knight" in rehabilitating the distressed bank.

Through the years, PDIC stepped up efforts to keep its failure resolution strategies responsive to prevailing circumstances in the banking system. The Corporation has devised various schemes of financial assistance and implemented procedural changes to be able to discharge bank failure resolution measures more effectively. Financial assistance is granted to help clean up the distressed bank's balance sheet by removing non-performing assets or by covering accumulated losses in order to make rehabilitation investment viable for qualified acquiring party. The clean-up will help increase the saleability of the distressed bank to potential investors who are required to have the financial strength and professional competence needed for a successful bank rehabilitation. The ability of incoming investors to accelerate rehabilitation is an important criterion of PDIC in giving incentives as part of the financial assistance. For better estimation of the costs involved in bank failure resolution, quantitative tools are applied to determine the optimal cost resolution strategy appropriate for a specific bank beneficiary.

Financial assistance was first extended by PDIC in 1970 to two thrift banks through loan and deposit placement. By 2002, 49 banks have received financial assistance either through direct loan, deposit placement and/or purchase of assets. Another 186 rural banks availed of assistance under the Countryside Financial Institutions Enhancement Program (CFIEP). Launched in 1991 as a joint undertaking with BSP and LBP, the CFIEP aimed to assist in capital build-up for rural and thrift banks in the countryside by providing incentives for fresh capital infusion to meet minimum capital requirement of smaller banks. Total financial assistance extended net of repayments amounts to P43.84 billion, including six banks with outstanding balance under CFIEP.

Claims Settlement

As insurer, PDIC's primary objective is to pay the right amount of insured deposits to the legitimate claimant immediately after bank closure. Unfortunately, R.A. 1405 or the Deposit Secrecy Law does not allow PDIC access to deposit records unless a bank is ordered closed by the Monetary Board.

The effectiveness of PDIC to promptly pay depositors their insurance claims is essential in sustaining public confidence in the banking system.

Innovations in Claims Settlement Operations

Reducing the turn around time (TAT) between bank takeover and start of claims settlement operations (CSO) remains a major objective of the Corporation. PDIC continues to implement measures to shorten claims TAT.

At the start of 2002, PDIC set a target TAT in conducting CSO. For a non-problematic bank with balances P10,000 and below, target CSO is within 21 calendar days for a single unit bank and 25 calendar days for a multi-unit bank from the date of takeover.

Target TAT on regular CSO for single unit non-problematic bank was reduced from 60 calendar days in 2001 to 30 calendar days in 2002 from start of CSO. Target TAT for multi-unit non-problematic bank dropped from 80 calendar days in 2001 to 45 calendar days.

Problematic bank was further classified for the year. TAT of multi-unit bank with less than 5,000 accounts was targetted to 70 calendar days. On the other hand, more than 5,000 accounts have TAT target of 70 calendar days for single unit bank and 90 calendar days for multi-unit bank.

The average TAT from bank takeover to start of ICSO significantly improved from 76 calendar days to 44 in 2002.

For the year ended, 9 out of 13 closed banks achieved the targetted TAT.

For overall efficiency of claims operations, consolidation of claims-related data is imperative. Hence, a central database called the Closed Bank Deposit Liabilities System (CBDLS) was conceptualized and developed in 2001 and is now undergoing operational adjustments to integrate the different claims systems currently being used, i.e., Claims Monitoring System, Claims Tracking System, and the CCPOS. This will minimize and eventually eliminate redundant and overlapping data. Moreover, the CBDLS is Internet-based which can be accessed anywhere by field payout teams. It has also a text messaging facility where depositors can send in their queries on the status of their claims.

CLAIMS SETTLEMENT OPERATIONS
For Banks which started payoff in 2002
Amounts in Million Pesos
As of December 31, 2002

Closed Bank	Date of Closure	Start of Payout	Total Deposits		Estimated Insured Deposits		Claims Filed[1/]		Insured Deposits Paid[1/]	
			Accounts	Amounts	Accounts	Amounts	Accounts	Amounts	Accounts	Amounts
Cooperative Bank of Negros Occidental	3-Dec-01	5-Feb-02	2,042	11.05	2,034	8.36	594	6.47	583	5.87
Second Rural Bank of Villasis (Pangasinan), Inc.	15-Dec-01	5-Feb-02	744	2.79	744	2.61	241	2.36	233	2.27
Unitrust Development Bank	4-Jan-02	18-Jan-02	14,584	235.51	14,490	121.40	6,044	108.28	5,992	107.11
Rural Bank of Lavezares (Northern Samar), Inc.	4-Jan-02	1-Apr-02	369	2.48	369	2.28	130	1.96	121	1.67
Rural Bank of Pili (Camarines Sur), Inc.	18-Feb-02	13-Mar-02	1,407	56.50	1,375	51.16	805	45.80	570	27.18
Bangko Rural ng Sta. Lucia (Ilocos Sur), Inc.	6-May-02	31-May-02	4,706	47.44	4,706	46.54	1,300	42.98	1,238	41.18
Rural Bank of Victoria (Laguna), Inc.	17-May-02	11-Jun-02	2,808	20.99	2,807	20.60	904	19.67	889	19.30
Rural Bank of Catbalogan (Western Samar), Inc.	17-Jun-02	2-Aug-02	3,033	14.98	3,027	11.33	889	9.54	877	9.39
Cooperative Bank of Lanao del Sur	20-Jun-02	30-Sep-02	723	13.31	723	12.90	212	7.62	134	5.81
Bangko Rural of Minabalac (Camarines Sur), Inc.	1-Jul-02	6-Aug-02	1,104	7.05	1,102	6.76	407	6.20	402	6.10
Cooperative Rural Bank of Albay (Albay), Inc.	12-Jul-02	16-Aug-02	682	7.59	678	6.72	305	5.88	292	5.85
All Asia Bank Corporation	2-Aug-02	27-Aug-02	16,977	700.83	16,710	264.14	9,666	243.64	8,983	205.13
Rural Bank of San Juan (La Union), Inc.	31-Oct-02	5-Dec-02	473	3.74	471	3.26	165	2.38	165	2.38
TOTAL			49,652	1,124.25	49,236	558.05	21,662	502.79	20,479	439.86

[1] *As a standard procedure, payout operations in closed banks start upon completion of examination of all deposit records.*

Claims Settlement

Claims Settlement Performance

Of the 13 banks closed in 2002, two were closed in the last week of November but ICSO started in January 2003. Insured deposits paid in the 11 banks amounted to P431.72 million involving 19,663 accounts, or 87.4 percent of the total amount of claims filed.

Aside from the 11 banks closed in 2002, payouts also started in two banks closed in 2001. The 13 banks where claims payout operations started in 2002 have combined estimated insured deposits of P558.05 million involving 49,236 accounts, of which P439.86 million (involving 20,479 accounts) has been paid as of yearend 2002. This is 78.8 percent of the estimated insured deposit amount, and 41.6 percent of the estimated insured deposit accounts. Unclaimed insured deposits mostly involve deposits with small balances. The remaining unpaid claims were pending primarily due to document deficiencies and deemed for further documentary verification.

Total insured deposit claims paid in 2002 reached P651.89 million covering 25,079 accounts in 137 closed banks. Total insured deposit claims paid from the time PDIC first started payout operations in 1970 until 2002 totaled P13.01 billion[1] involving 1.45 million accounts in 418 closed banks.

As of end-2002, claims involving 12,872 accounts (P34.85 million) have been processed and are ready for release, although depositors, in spite of having been informed of approval of their claims, have yet to claim payment. Claims involving 17,951 accounts (P219.84 million) have yet to be processed pending submission of required documents by claimants, while claims amounting to P491.30 million representing 10,436 accounts are currently being validated and awaiting resolution of legal issues prior to processing.

Claims on Subrogated Deposits

As of end-2002, total claims for subrogated deposits filed by PDIC against 369 closed banks amounted to P4.47 billion. Recoveries on subrogated deposits totaled P1.68 billion from 45 banks[2], which makes up 37.5 percent of the total amount of claims filed by PDIC against closed banks. Of this amount, P1.03 billion represents partial recovery from eight banks, while P0.64 billion represents full recovery from 37 banks. Subrogated claims filed but not yet recovered amounted to P2.79 billion as of end 2002.

During the year, P106.70 million was recovered from three banks, i.e., PAIC Savings and Mortgage Bank (P64.45 million), Pioneer Savings and Loan Bank (P21.15 million), and Solid Homes Savings and Loan Association (P21.10 million).

CLAIMS FOR AND RECOVERY OF SUBROGATED DEPOSITS
Cumulative Yearend 2000-2002
Amounts in Million Pesos

	2000		2001		2002	
	No. of Banks	Amount	No. of Banks	Amount	No. of Banks	Amount
Subrogated Deposits	384	10,921.94	405	12,362.48	418	13,014.37
Claims filed by PDIC against the closed banks	337	3,653.08	348	3,720.22	369	4,469.32
Claims in process	47	7,268.86	57	8,642.26	49	8,545.05
Recoveries on Claims Filed	39	1,130.64	42	1,569.19	45	1,675.90
Partial Recovery	6	885.49	7	968.86	8	1,033.31
Full Recovery	33	245.15	35	600.33	37	642.58
Claims Filed But Not Yet Recovered	298	2,522.44	306	2,151.03	324	2,793.42
Ratios						
Recoveries to Subrogated Deposits	10.2%	10.4%	10.4%	12.7%	10.8%	12.9%
Recoveries to Total Claims Filed	11.6%	31.0%	12.1%	42.2%	12.2%	37.5%

Note 1: Subrogated deposits represent insured deposits paid consisting of payments made to depositors including US dollar deposit accounts converted to Philippine pesos for accounting purposes, and withheld taxes remitted/to be remitted to BIR.
Note 2: Allowance for losses on subrogated claims receivables of December 31, 2002 amounted to 3.60 Billion.

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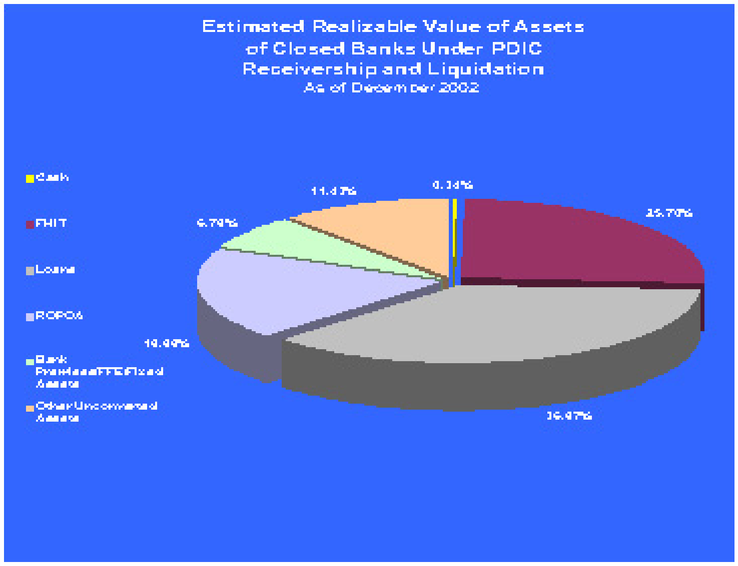
[1] *Includes taxes withheld on the interest component of the insured deposit.*
[2] *25 of these banks were rehabilitated/reopened.*

Receivership & Liquidation

When a bank is ordered closed by the Monetary Board, PDIC as the mandated receiver immediately takes over the bank, and administers and preserves its assets for the benefit of the bank's creditors. PDIC then determines within 90 days from takeover whether the bank may be rehabilitated or permitted to resume business, safeguarding the interest of its creditors and the general public. Otherwise, PDIC recommends liquidation of the bank to the Monetary Board.



As liquidator, PDIC converts the assets of the closed bank and subsequently distributes proceeds to its creditors in accordance with the rules on concurrence and preference of credit under the Civil Code of the Philippines.

With the amendment of the PDIC charter in 1992, PDIC was made the mandatory receiver and liquidator of all banks ordered closed by the Monetary Board.

Asset Administration, Recovery and Disposal

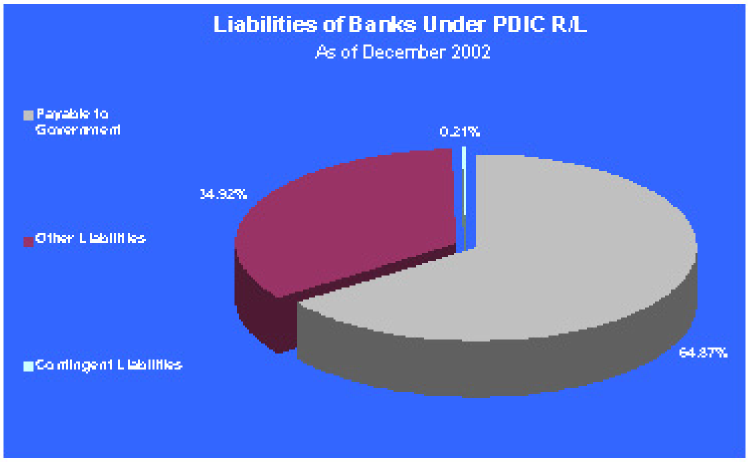
By 2002, no bank under liquidation has been closed in terms of final Project of Distribution (PoD). As of end-2002, 408 banks were placed under liquidation and 11 banks were placed under receivership. The 419 closed banks consist of 365 RBs, 52 TBs and 2 KBs, with combined estimated realizable value of assets (ERVA) of P15.59 billion as against liabilities of about P35 billion.

ERVA of the closed banks is comprised mainly of loans and funds held in trust. Other unconverted assets consist of P2.94 billion worth of real and other properties owned or acquired (ROPOA), P1.06 billion worth of bank premises, furniture, fixtures, equipment and other fixed assets, and other assets of P1.78 billion. Unconverted real properties include agricultural lands, many of which are still for inspection by the Department of Agrarian Reform (DAR) to determine whether these are covered by the Comprehensive Agrarian Reform Program. To speed up inspection, direct linkages between municipal agrarian reform officers and deputy liquidators of closed banks have been strengthened through improved communication and coordination.

Almost two-thirds of estimated liabilities of closed banks is due to government agencies such as the BSP, Bureau of Internal Revenue, Development Bank of the Philippines, Asset Privatization Trust, and PDIC. These liabilities are in the form of rediscounted loans, overdrawings, emergency loans, annual banking fees, penalties on reserved deficiencies, receiver/liquidator expenses, subrogated claims for insured deposits and unremitted taxes. Other liabilities include unremitted premium to Social Security System and Medicare, labor claims, and uninsured deposits.

Source	Amount *(in million pesos)*
Loan collections	P351.92
Disposal of closed banks' properties · Agricultural properties · Non-agricultural properties · Furniture, fixtures and equipment	P102.38 P28.30 P58.95 P15.13
Foreclosure of collaterals, rental income and other sources such as interest earnings on bank accounts maintained by PDIC for and in behalf of closed banks	P17.04

Receivership and Liquidation



Asset Distribution

Recoveries from disposal of assets and loan collections (after deducting trust funds, receivership/liquidation expenses, and contingent liabilities) are distributed/assigned as liquidating/surplus dividends to the closed bank's creditors in accordance with the rules on concurrence and preference of credit as provided in the Civil Code and upon approval of the project of distribution (POD) by the liquidation court[1].

As of end-2002, PODs of 20 closed banks (2 final and 18 partial) involving an aggregate amount of P6.71 billion in assets for distribution/payment have been approved by their respective liquidation courts. By yearend, a total of P213.82 million in trust obligations and R/L expenses was paid, while P6.32 billion in dividends was distributed to the creditors of these closed banks.

Of the total dividends distributed, P2.83 billion came in the form of marketable securities, bonds, real properties or receivables.

In 2002, the partial PODs of five closed banks, i.e., PAIC Savings & Mortgage Bank, Perpetual Savings Bank, Pioneer Savings & Loan Bank, Rural Bank of Calumpit, and Rural Bank of Southern Cagayan, filed between 2001 and 2002, were approved by the liquidation courts. Total assets approved for distribution/payment summed up to P413.07 million, of which dividends amounted to P376.38 million, with the balance representing allocation for R/L expenses and trust fund.

Distribution of dividends was started in two of these banks within the same year, i.e., Pioneer Savings & Loan Bank amounting to P26.42 million and PAIC Savings & Mortgage Bank, P250.30 million. The BSP/CB-BOL was paid a total P169.89 million; PDIC, P85.60 million; and other creditors, P7.93 million. Total receivership/liquidation expenses and trust obligations paid amounted to P26.49 million.

Various creditors of 12 closed banks with distribution started prior to 2002 were paid a total of P113.62 million in that year. Creditors paid included the National Government (P6.29 million), PDIC (P21.10 million), BSP (P0.19 million), and depositors and other creditors (P86.03 million). Expenses incurred in undertaking R/L activities amounting to P33.60 million were also settled.

More PODs are expected to be filed with the closed banks' respective liquidation courts next year with the approval by the PDIC Board of the PODs of 38 closed banks (i.e., 6 thrift and 32 rural banks) in 2002, involving total assets for distribution/payment of P592.16 million.

Reforms in R/L Operations

Constraints that have long hampered the liquidation process, namely, legal problems, document deficiency of properties, lack of updated appraisals, and lack of manpower have already been addressed by way of enhanced operational processes.

To hasten asset recovery, administration and disposal, operational reforms have been adopted through the years such as the conduct of public bidding with modified rules to minimize opportunity losses; conduct of consultative meetings with the DAR and LBP to expedite the transfer of agricultural holdings of closed banks to the farmer; availment of incentives under the Voluntary Assessment Program of the Bureau of Internal Revenue to cut down on costs in administering closed banks' properties; and partial

[1] *A plan which serves as the basis in distributing the assets of the closed bank to its creditors.*

distribution of liquidating dividends to creditors in the form of unconverted assets to accelerate termination.

The Asset Management Group facilitated the process of disposing closed banks' ROPOA, thus, hastening liquidation process.

Engagement of brokers, sales agents other than direct selling, and listing of properties through the PDIC website have also been adopted.

Pooled investments of closed banks were monitored through the Funds Monitoring System which tracks the performance of individual banks' investments. In 1999, a move to adopt the common or global concept of investment pooling was initiated, and the Common Fund Monitoring System was developed. Under this concept, no participating bank is deemed to have individual ownership of any assets in the fund, but each has a proportionate beneficiary interest in the fund and shares pro-rata with the others in the fund's income, expenses or losses. Apart from being a system that is easier to manage, it is deemed to be more advantageous to closed banks since all banks will share in the returns from the fund's profitable investments, based on their own contribution to the fund.

Other measures implemented to enhance receivership and liquidation operations include the enhancement of information systems in the compilation and centralization of data and statistics to address management information requirements. These include the development of computerized monitoring system on ROPOA, the Financial Statement Generation System, the Computerized Payoff System for Creditors of closed banks, among others.

CLOSED BANKS WITH APPROVED PROJECTS OF DISTRIBUTION BY THE LIQUIDATION COURT
As of December 31, 2002
Amount in Million Pesos

Closed Bank	Date Approved by the Liquidation Court	Approved Amount for Distribution/ Payment	Liquidating Dividends						R/L Expenses Paid	Trust Paid	Total Amount Distributed/ Paid
			National Government a/	PDIC	BSP	CB-BOL	Other Creditors	Total			
Commercial Bank											
1 Pacific Banking Corporation	06/22/00	3,226.31	5.78		89.46	2,958.13	87.34	3,140.71	70.59		3,211.30
Thrift Bank											
2 Fidelity Savings & Mortgage Bank	07/22/96	13.64	0.02	1.58	4.92	-	1.65	8.17	1.21		9.38
3 Banco Primero Development Bank	10/22/96	119.15	10.61	24.11	0.30	23.04	2.80	60.85	3.87	54.68	119.40
4 Island Savings Bank	06/30/97	6.77	-	2.22	-	-	2.88	5.09	0.12	0.29	5.50
5 Regent Savings & Loan Bank	06/07/00	36.19	-	18.13	0.72	-	7.62	26.47	2.07	-	28.54
6 PISO Development Bank	06/13/00	2,690.76	2,012.49	118.79	351.90	132.78	32.21	2,648.16	40.53	-	2,688.69
7 Development Bank of Rizal	12/15/00	129.74	-	83.37	0.40	-	18.63	102.39	3.89	-	106.29
8 Intercity Savings & Loan Bank	10/26/01	36.47	-	21.89	1.35	-	7.55	30.78	3.40	0.70	34.87
9 Solid Homes Savings & Loan Bank	12/06/01	27.75	0.51	21.10	0.08	-	0.96	22.65	2.74	0.84	26.23
10 Pioneer Savings & Loan Bank	03/04/02	31.22	-	21.15	0.64	-	3.85	25.64	4.63	0.17	30.44
11 PAIC Savings & Mortgage Bank	09/16/02	273.99	-	64.45	2.00	167.25	4.09	237.79	16.20	5.49	259.48
12 Perpetual Savings Bank [b/]	11/20/02	99.61	-	-	-	-	-	-	-	-	-
Sub-total		3,465.29	2,023.63	376.77	362.31	323.06	82.22	3,168.00	78.65	62.16	3,308.81
Rural Bank											
13 Rural Bank of Kiblawan [c/]	05/04/89	-	-	-	-	-	-	-	-	-	-
14 Rural Bank of Natividad	08/14/95	0.31	-	-	-	-	-	-	0.04	-	0.04
15 Rural Bank of Villasis	08/18/95	0.65	-	-	-	-	-	-	0.60	-	0.60
16 Rural Bank of TAyug	10/24/95	0.72	-	-	-	-	-	-	0.45	-	0.45
18 Rural Bank of San Pedro	04/10/97	10.55	-	9.68	-	-	-	9.68	0.70	0.12	10.50
20 Rural Bank of Obando	10/30/97	0.50	-	-	-	-	-	-	0.50	-	0.50
22 Rural Bank of Calumpit [b/]	10/08/02	4.78	-	-	-	-	-	-	-	-	-
23 Rural Bank of Southern Cagayan	12/10/02	3.47	-	-	-	-	-	-	-	-	-
Sub-total		20.97	-	9.68	-	-	-	9.68	2.29	0.12	12.09
TOTAL		6,712.58	2,029.41	386.45	451.76	3,281.19	169.56	6,318.38	151.54	62.28	6,532.20

a/ Comprised of the Bureau of the Treasury, Development Bank of the Philippines/Asset Privatization Trust and Bureau of Internal Revenue
b/ No POD payment as of report date
c/ POD implemented by BSP
d/ 2 final PODs: RB Natividad and RB Kiblawan

Support Infrastructure

To effectively fulfill its role in the financial system, PDIC consistently enhances its organizational structure, improves its processes and procedures, and when necessary, redirects its programs and activities.

Organization and Manpower Development

Enhancing the quality of its human capital remains one of PDIC's top corporate priorities in 2002. With a manpower complement of 705, consisting of 158 officers and 547 rank-and-file by yearend 2002, PDIC continued to implement training programs to improve the skills and empower its employees to render higher quality of public service.

Upon employment, a newly hired employee is required to attend seminars such as the Values for Institutional Enhancement Workshop (VIEW)[1] and the Foundation Course (FC), both of which inculcate PDIC's corporate culture and promote its vision, mission and beliefs. PDIC also continued to conduct seminars on Values Enhancement Program (VEP) designed to instill deeper commitment to public service by achieving synergy among personal, professional and corporate values.

Parallel to its commitment to recruit competent personnel and maintain an efficient organization, PDIC enhances personnel competency and upgrades skills to meet the challenges brought about by new financial products and instruments resulting to more complex market structures.

Training needs become more pronounced as the Corporation foresees greater responsibilities when the proposed amendments to the PDIC Charter are enacted into law. And with the advent of Basel II's new capital adequacy framework, PDIC personnel have to keep abreast with changing regulatory and prudential guidelines as local standards are aligned with internationally accepted practices.

Two years after the organizational restructuring in 2000, various functions in the organization have been made more focused. With more defined delineation of functions, management's span of control became more manageable.

In 2002, the PDIC Training Institute (PDIC-TI) also focused on the enhancement of professional skills and technical proficiency toward heightened awareness of corporate governance.

For 2002, the PDIC spent a total of P4.48 million for training consistent with the Master Training Plan developed for the year. A total of 148 training programs (33 in-house, 107 off-house, and 8 foreign) were conducted/facilitated by the PDIC TI during the year, with 1,281 participants (including 49 dependents of PDIC employees who attended the Livelihood Training Program).

Employee-Management Relations

PDIC recognizes the role of the PDIC Employees Organization (Phildiceo) in achieving harmonious employee-management relations in the Corporation. With the 3-year Collective Negotiations Agreement signed in 2000 still in effect, Phildiceo took an active role in enhancing its members' welfare through strong representation in committees on recruitment and promotion, training and occupational health, among others. Phildiceo was likewise given the opportunity to recommend seminars that would develop entrepreneurial skills among the ranks, finding alternative sources of income for its family members and their dependents.

General assemblies and meetings with officers of the Officers' Club and Phildiceo, and Group Heads were regularly held with the President and CEO. These were intended to provide opportunities for direct interaction and discussion on current developments and issues concerning the Corporation and welfare of its people. This further amplified the commitment of PDIC to achieving transparency in the corporation through open communication.

The Corporation implements a merit award system to motivate employees to render effective performance and instill excellence in public service. Under the Program on Awards and Incentives for Service Excellence (PRAISE), employees who render exemplary service, observe corporate discipline and demonstrate PDIC core values are given due recognition.

In 2002, a Family Day was launched to forge closer relationship between PDIC and its 'extended' family. The employees' families, particularly children, were given orientation on PDIC's role and functions through audio-video presentation and a guided tour of the workplace, providing them a better understanding of the nature of their parents' work.

[1] *Replaced by the Values Enhancement Program course.*

Legal Framework

Since the creation of the PDIC in 1963 through Republic Act No. 3591 (RA 3591), amendments have been introduced over the years, affecting mainly the level of the permanent insurance fund and deposit insurance coverage. Major amendments to the PDIC Charter were contained in Republic Act 7400 enacted in 1992, which expanded the mandate of the Corporation to assume a greater role in banking supervision and regulation. Under its 1992 Charter, PDIC was mandated receiver/liquidator of closed banks and was vested the power to conduct independent examination of banks.[2] The General Banking Law of 2000, however, repealed PDIC's examination powers.

PDIC's efforts to strengthen its legal framework through amendments to its Charter started in 1998. In 2002, bills were filed in both House (HB 255) and Senate (SB 2009) seeking, among others, the increase in deposit insurance coverage and reinstatement of on-site examination powers. During the year, HB 255 underwent three deliberations in the House Committee on Banks and Financial Intermediaries, while the Senate Committee on Banks, Financial Institutions and Currencies conducted a session on its bill. PDIC is closely coordinating with Congress for the early passage of the bill.

The Corporation collaborates with the Office of the Government Corporate Counsel (OGCC) on the prosecution, defense, trial, hearing and preparation of pleadings and evidences in civil actions. Close coordination with external counsels and state prosecutors handling cases of closed banks is also being maintained.

Committed to preserve the integrity of the banking system, a unit specifically investigates cases of bank fraud committed by officials of closed banks. Periodic meetings/dialogues with the BSP Office of Special Investigation and the Task Force on Financial Fraud of the Department of Justice (DOJ) are periodically held to discuss cases under investigation. This unit has so far filed 17 bank fraud cases with DOJ in 2002.

Internal Audit

Audit of operations and support functions has consistently been an integral part of the organization's internal control system to ensure integrity and efficiency of operations and assure compliance with corporate standards on accountability. During the year, the Internal Audit Group conducted comprehensive reviews of 20 departments, 23 closed banks and 16 committees. For the first time, outsourcing of internal audits of closed bank was explored in order to enhance capability to audit more closed banks. A total of 18 closed banks were audited by R.S. Bernaldo and Associates after public bidding and clearance from the Commission on Audit. Further, the Internal Audit Group conducted 13 special audits on selected areas/activities in addition to periodic audit verifications on pre-identified high-risk areas such as cash and collateral securities.

The Internal Audit Group continued to be the corporate liaison with the Commission on Audit for mutual understanding of each other's policies, practices and decisions as well as for facilitating resolution of existing and potential COA audit concerns.

Information Dissemination

PDIC relies heavily on published materials to disseminate information, primarily on the benefits and limitations of deposit insurance. Primers and brochures containing relevant and pertinent information on PDIC functions were periodically updated and enhanced to respond to the needs of the depositing public. The information pamphlet series includes information on deposit insurance, settlement of claims for insured deposits, and practical guides and tips to depositors.

To continuously improve information dissemination in the field operations, the PDIC public information staff provided frontline services during takeover and claims settlement operations by attending to queries of depositors on procedures for filing claims, documentation requirements, etc. They also liaise with local government units and barangays, the local media, regional offices of the Philippine Information Agency, schools and universities to ensure that the public is informed of bank closures and schedules of claims servicing.

To heighten public understanding among the youth on PDIC and deposit insurance, the corporate public awareness and education program was approved in 2002. One of the initiatives is to conduct educational tours to selected public elementary and high schools as part of PDIC'S efforts to educate the young on the importance of savings and of deposit insurance. This project was formalized in 2002 through a Memorandum of Agreement between PDIC and the Department of Education-National Capital Region.

Depositors Assistance Bureau

The Depositors' Assistance Bureau (DAB), tasked to be an effective intermediary for the depositing public's bank queries, handled complaints and coordinated with PDIC offices/government agencies and specific banks to address various depositors' complaints. The Bureau was further strengthened in 2002 with the installation of a DAB Kiosk at the claims counter lobby where an officer-of-the-day is designated to attend to clients. The Kiosk also provides an e-service facility that allows access to information concerning PDIC through the website.

The PDIC website also provides depositors and the general public access to information on member-banks, PDIC regulatory issuances, PDIC-related news and events as well as general information on PDIC's corporate profile. Links to researches, special papers and speeches, including Frequently Asked Questions (FAQs) can also be accessed through the site. Publications such as the PDIC Charter and other related banking laws are also readily available and may be downloaded.

Placement of orders by banks for PDIC decals and standees was also made convenient and available through the Internet in 2002 by just clicking http://www.pdic.gov.ph/order.

Coordination and Linkages

International Linkages

In 2002, the Corporation hosted visiting bank officials from Indonesia's Ministry of Finance, a peer institution. Briefings were conducted on practices and experiences. In some instances, visiting officials were given the opportunity to observe actual takeover and claims payout operations. Under this institutional linkage, PDIC officials were also made available to conduct seminars and briefings. In 2002, a PDIC official also served as resource person on deposit insurance in seminars held at the SEACEN Center in Kuala Lumpur and African Development Bank in Ivory Coast.

As member of the Working Group on Deposit Insurance of the Financial Stability Forum, PDIC actively participated in meetings of the Working Group to share lessons learned from experiences and make recommendations on the desirability and feasibility of setting out international guidance on deposit insurance.

In May 2002, PDIC became a founding member of the International Association of Deposit Insurers (IADI) established in Basel, Switzerland, together with peer deposit insurance agencies in the United States, Canada, France, Sweden, Hungary, Czech Republic, Bulgaria, Jordan, Ukraine, Turkey, Japan, Korea, Taiwan, Argentina, Brazil, Mexico, El Salvador, Peru, Jamaica, Bahamas, Trinidad and Tobago, Nigeria, Kenya, and Quebec.

An international non-profit organization created mainly through the initiatives of the Bank for International Settlements and the Canada Deposit Insurance Corporation, IADI aims to promote international cooperation in the field of deposit insurance and to encourage greater cooperation and closer ties among deposit insurers and other interested parties. In particular, it seeks to enhance understanding of common interests and issues related to deposit insurance; facilitate sharing of expertise and information by providing training and educational programs; and undertake researches on issues relating to deposit insurance.

PDIC President and CEO Norberto C. Nazareno was elected member of the Executive Council tasked to govern the business affairs of the IADI. Together with the deposit insurance corporations of Japan and Korea, the Philippines is at the forefront of its various activities geared towards establishing an affiliated Asian Regional Committee (ARC) of the IADI. This serves as a forum to discuss regional interests and common issues through exchange of information and experiences among Asian deposit insurers. In December of the same year, two representatives from the Deposit Insurance Corporation of Japan (DICJ) visited PDIC to discuss with top management matters relating to the first inaugural meeting of IADI-ARC scheduled in 2003.

Through the years, PDIC has been a constant beneficiary of a number of foreign-funded technical assistance grants, giving it the opportunity to further strengthen linkages with the CDIC, the FDIC and other international regulatory agencies, learning international best practices in deposit insurance systems. Obtained in 2001, a grant from the Policy, Training and Technical Assistance Facility (PTTAF) funded by the Canadian government focused in further enhancing PDIC's risk management function, is expected to be extended in 2003.

Domestic Linkages

The Corporation continues to strengthen its linkages with bank associations and other agencies. PDIC hosts

[1] *Prior to RA 7400, PDIC conducts on-site examinations simultaneous with examinations conducted by the BSP.*

periodic meetings with banking associations to foster closer linkages with the banking community and to keep abreast with current developments and innovations in the industry. These meetings provide opportunities for consultation with member banks on various issues as well as exchange of views and opinions concerning needs for enhancing PDIC's effectiveness and banking reforms.

PDIC also closely coordinates with the country's primary regulator in promoting and maintaining confidence in the stability of the banking system. Towards this end, an agreement has been formalized between the two agencies on information sharing and exchange.

As part of its outreach program, the Corporation, through the PDIC Training Institute, conducted outreach seminars and workshops to assist thrift and rural banks in the countryside in their institutional capability building, in collaboration with the Bankers' Institute of the Philippines, Inc. (Baiphil).

TROs delay closure of RB Tuy

In compliance with its statutory mandate as receiver/liquidator of banks ordered closed by the Monetary Board, PDIC immediately takes over the operations of a closed bank to preserve the integrity of bank records. The examination of these records are necessary to effect prompt settlement of claims for insured deposit. Any form of intervention by the owners of closed banks can seriously delay the claims settlement operation.

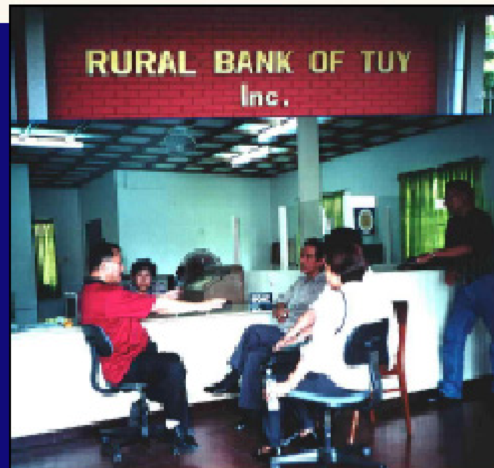
Take the case of the Rural Bank of Tuy, Inc. (Batangas) which was ordered closed under MB Resolution (MBR) No. 603 on April 14, 2000. PDIC took over the closed bank on April 17, 2000 after serving the closure order to Mr. Felix Ramos, the closed bank's board secretary. Soon after, the PDIC takeover team sealed the bank's drawers and gathered loan/deposit ledgers and other bank records. Notice was also served to Ruben Rodriguez (one of the owners of the bank) and his father.

On April 18, Mr. Rodriguez, together with 10 bank employees went inside the bank while 20 men, one of whom was armed, surrounded the bank premises. Mr. Rodriguez pushed the door open and tore down the notice of closure posted by PDIC at the front door of the bank. On the same day, Mr. Rodriguez filed with the Regional Trial Court Balayan Branch 9, a petition for preliminary injunction seeking to enjoin Bangko Sentral ng Pilipinas (BSP) and PDIC from enforcing MBR 603.

RTC Balayan Branch 9 issued a temporary restraining order on April 24, 2000, directing BSP and PDIC to cease and desist from enforcing the MBR, the effectivity of which lasted for 72 hours. When the TRO expired on April 27, 2000, the same court issued another order extending the TRO from 3 days to 20 days.

After expiration of the TRO, PDIC tried to address the problem by seeking the assistance of local government officials. PDIC first met with Batangas Governor Hermilando I. Mandanas who promised to talk to Mr. Rodriguez and requested the PNP Provincial Commander to provide security during takeover operations. When the PDIC takeover team re-entered the bank, Mr. Rodriguez prevented them anew. Another meeting was held with Tuy's Municipal Mayor who promised to provide the same assistance previously provided by Governor Mandanas. However, Mr. Rodriguez still refused to cooperate.

When RTC Balayan Branch 9 issued a Certificate of Finality of its Order dismissing the petition, Mr. Rodriguez elevated the case to the Court of Appeals, and later the Supreme Court. Both courts eventually sustained PDIC. Meanwhile, however, the settlement of insured deposits was delayed, to the detriment of the depositing public.



RB Tuy Bank owner Ruben Rodriguez (left) drives home a point during a meeting with VP Aurora C. Baldoz (2nd left), SVP Gumersindo Arroyo (middle) and PDIC lawyers (right).

PDIC and International Relations

Considered as tangible proof of PDIC's emerging stature in the international community of deposit insurers, was the election of then PDIC President and Chief Executive Officer now PDIC Board Director Norberto C. Nazareno for a three-year term to the 19-member International Association of Deposit Insurers (IADI) Executive Council, during its inaugural general membership meeting in Basel, Switzerland on May 6, 2002. The Council was established to govern the business affairs of IADI.

Mr. Nazareno and BSP Deputy Governor Alberto V. Reyes, who represents the BSP Governor in PDIC Board meetings, represented PDIC at the international meeting. Election to the Executive Council was based on individual qualifications, among them, personality, experience, integrity, and expertise. Serving for three years along with the Philippines are the Czech Republic, France, Jamaica, Japan, Kenya and the United States.

IADI is a non-profit organization formed to contribute to the stability of the financial systems of the member-countries by promoting international cooperation in the field of deposit insurance and encouraging global interaction among deposit insurers and other interested parties.

The PDIC, is one of the founding member-organizations of IADI. As of May 2003, 44 IADI member-organizations have been categorized into regular (voting) members, associate members and observers. The BSP has also been accepted as IADI associate member.

Aside from his membership in the Council, Mr. Nazareno was a member of IADI's Research and Guidance Committee, tasked to set out guidance to enhance deposit insurance systems effectiveness, to tailor-fit individual countries' varying circumstances, settings and structures. A business plan for guidance on differential premium systems currently being developed by IADI, was sent out for comments on issues, to be addressed by a group of experts from Argentina, Brazil, Canada, France Hungary, France, Japan, Jordan, Korea, Mexico and the Philippines.

Mr. Nazareno was also a member of the Asian Regional Committee (ARC), one of the four regional committees composed of Africa, Caribbean, and Latin American committees that focus on issues of common regional interest.

PDIC, together with other deposit insurance corporations in Asia, namely, Japan, Korea and Taiwan will be at the forefront in the establishment of an affiliated regional chapter of IADI.

The IADI is envisioned to enhance the understanding of common interests and issues related to deposit insurance, set out guidance to help deposit insurance systems effectiveness, encourage international contacts, undertake research, facilitate the sharing of information through training and educational programs, and provide advice on deposit insurance issues.

The establishment of IADI is an offshoot of the Financial Stability Forum, where PDIC is one of the only sixteen representatives from different countries and international organizations named to the Working Group on Deposit Insurance (WGDI). PDIC has been actively participating in WGDI activities and serves as coordinator in the Sub-group on Structure and Organization, composed of representatives from Canada, Germany, Jamaica and the World Bank. The WGDI provided guidance on the elements of effective deposit insurance systems for countries considering the adoption of the reform of an existing deposit insurance system.

The Corporation's involvement and participation in IADI is a strategic move to further enhance its institutional knowledge and expertise on deposit insurance through information sharing, research as well as educational and training programs. IADI membership also translates to international recognition and linkaging, as well as access to current trends and practices that can contribute to the stability of the financial systems and deposit insurance effectiveness.

The Many Faces of Corporate Social Responsibility (CSR)

The Corporation's social thrusts and priorities have gone through various metamorphosis from charity missions precipitated by the 1990 earthquake and Mt. Pinatubo eruption in 1991, to more meaningful and relevant causes like environmental involvement and savings consciousness, tied up to education and youth development.

The Corporation also advocated for a strong environmental campaign. PDIC has drawn up a more pragmatic approach in waste management through institution of waste segregation measures in the workplace. This was formalized by a joint agreement with the Metro Manila Linis Ganda Foundation, Inc.

PDIC's advocacy for the primacy of life was underscored through support to indigent heart patients of the Heart Foundation of the Philippines, and the conduct of blood-letting activities in coordination with the Philippine Children Medical Center.

To complement the government's poverty alleviation thrust, the Corporation helped facilitate the transfer of Certificate of Land Titles for a piece of property owned by a closed bank to Samahang Magkakapitbahay ng Joan of Arc, an urban poor group from Novaliches, Quezon City in coordination with the National Home Mortgage Financing Corporation's (NHMFC) Community Mortgage Program (CMP), (photos 1-4). The same arrangement is now being worked out by PDIC involving purchase of a property by another group, also through the CMP. On a similar vein, PDIC supported the government's housing program for the dislocated victims of the armed conflict in Mindanao. The assistance was turned over to Dept. of Social Welfare and Development Secretary Corazon Soliman (photo 5).

Children from underprivileged families along the railroad tracks of Pasong Tamo were also treated by PDIC to an art contest (photo 6), a puppet story telling session (photo 7), a class on values (photo 8) and a tour of the Museo Pambata (photo 9).

PDIC continues to focus on youth education and development in its CSR campaigns. This will be pursued through more meaningful and long-term projects in coordination with the Department of Education. PDIC will continue to devote greater corporate involvement and participation, in these programs which will become the centerpiece of the Corporation's CSR initiative. The Corporation has already paved the way for the program's adoption with its Educational Tour project and the PDIC Open House for grade school students in 2002 (photos 10-12).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Financial Performance

Results of Operations

Gross revenues in 2002 amounted to P8.27 billion, 53.6 percent of which came from assessment income which is equivalent to P4.44 billion, while 41.4 percent is net income from investments amounting to P3.43 billion.

Meanwhile, total expenses reached P4.44 billion, 78.1 percent of which consists of provision for insurance losses - an 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. The balance represents operating expenses which include cost of operations, provision for uncollectible accounts, as well as interest on restructured loans from BSP to finance payment of insurance claims made to depositors of banks closed in the 1980s, and from financial assistance to a commercial bank.

PDIC has declared P2 billion in dividends from net income for the year 2002, remitting P1 billion to the National Government during the year. The balance shall be remitted in 2003.

Financial Position

PDIC's financial resources significantly increased to P97.91 billion as of end 2002. This is 55.1 percent higher than previous year's P63.11 billion. Investments and financial assistance to member banks made up more than 80 percent of PDIC's resources.

Funding sources include assessment collections, permanent insurance fund, and interest income on investments. These funds are deployed to cover payment of insured deposit claims, financial assistance to banks, payment of interest on borrowings from BSP, and operating expenses of the Corporation.

In 2002, PDIC extended financial assistance amounting to P28.87 billion to eight banks, bringing the total balance net repayments and recoveries as of end 2002 to P43.84 billion[1].

Subrogated claims receivable or claims against closed banks arising from payment of insured deposits, amounted to P11.34 billion as of end-2002, 5.3 percent higher than previous year's P10.76 billion. This is due to insured deposit claims paid to depositors in 137 closed banks aggregating P0.65 billion during the year. On the other hand, aggregate recoveries on subrogated deposits reached P1.68 billion, of which P106.7 million was recovered during the year from three closed banks.

Total liabilities increased from P31.62 billion to P61.20 billion as of end 2002 while long term liabilities almost doubled from P30.07 billion to P56 billion. PDIC is authorized by its Charter to borrow from the BSP for insurance purposes as well as to extend financial assistance to distressed banks.

Estimated Insurance Losses (EIL) as of end 2002 amounted to P31.43 billion, or 11.7 percent higher than previous year's P28.13 billion. EIL is intended to cover losses from member banks identified to have high probabilities of closure where payment of insured deposits upon closure may exceed estimated recovery of subrogated deposits upon liquidation. Retained earnings grew by P1.92 billion. Deposit Insurance Fund as of yearend 2002 reached P36.71 billion.

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[1] *This includes P0.39 billion subrogated claims receivable swapped with BSP receivables from rural banks under Module I of the Countryside Financial Institutions Enhancement Program (CFIEP).*

Financial Statements

COMPARATIVE STATEMENTS OF CONDITION

(In Thousand Pesos)

	2001 December (restated)	2002 December	Increase / Decrease	
ASSETS	Current		Amount	%
Assets				
Cash on Hand and In Banks (Note 2)	182,145	52,607	(129,538)	-71.12%
Short Term Investments (Note 3)	1,531,699	1,641,368	109,669	7.16%
Interest Receivable from Investments	709,110	715,183	6,073	0.86%
Other Current Assets (Note 4)	408,903	679,819	270,916	66.25%
Total Current Assets	2,831,857	3,088,977	257,120	9.08%
Long Term Investments (Note 5)				
Government Securities - Treasury Bonds (Dollar)	355,472	366,228	10,756	3.03%
Government Securities - Treasury Notes/ Bonds (Peso)	24,503,546	27,353,911	2,850,365	11.63%
Investment in Preferred Stocks	-	7,807,018	7,807,018	-
Total Long Term Investments	24,859,018	35,527,157	10,668,139	42.91%
Financial Assistance to Banks (Note 6)	25,793,130	43,838,681	18,045,551	69.96%
Due from BSP-Treasury (Note 7)	4,165,766	4,165,766	-	-
GS-Trust Fund (Note 8)	-	2,599,298	2,599,298	-
Special Fund (Note 9)	-	165,007	165,007	-
Subrogated Claims Receivable (Note 10)	10,764,087	11,340,074	575,987	5.35%
Less: Allowance for Losses on Subrogated Claims Receivable	5,998,224	3,601,899	(2,396,325)	-39.95%
Subrogated Claims Receivable - Assigned	(447,085)	(391,596)	(55,489)	-12.41%
Net Subrogated Claims Receivable	4,318,778	7,346,579	3,027,801	70.11%
Fixed Assets (Note 11)	224,860	230,490	5,630	2.50%
Other Assets (Note 12)	921,295	948,981	27,686	3.01%
TOTAL ASSETS	63,114,704	97,910,936	34,796,232	55.13%

LIABILITIES, DEPOSIT INSURANCE FUND AND CONTINGENT SURPLUS				
LIABILITIES				
Current Liabilities (Note 13)	808,908	1,699,276	890,368	110.07%
Long Term Liabilities (Note 14)	30,071,329	55,999,544	25,928,215	86.22%
Other Liabilities (Note 15)	737,852	3,503,402	2,765,550	374.81%
TOTAL LIABILITIES	31,618,089	61,202,222	29,584,133	93.57%
DEPOSIT INSURANCE FUND				
Permanent Insurance Fund (Note 16)	3,000,000	3,000,000	-	-
Estimated Insurance Losses (Refer to Note 1)	28,132,772	31,427,136	3,294,364	11.71%
Donated Surplus	507	507	-	-
Retained Earnings	362,888	2,280,626	1,917,738	528.46%
TOTAL DEPOSIT INSURANCE FUND	31,496,167	36,708,269	5,212,102	16.55%
CONTINGENT SURPLUS	448	445	(3)	-0.67%
TOTAL LIABILITIES, DEPOSIT INSURANCE FUND AND CONTINGENT SURPLUS	63,114,704	97,910,936	34,796,232	55.13%

Financial Statements

COMPARATIVE STATEMENTS OF INCOME AND EXPENSE

(In Thousand Pesos)

	2001 December (restated)	2002 December	Increase / Decrease	
			Amount	%
GROSS ASSESSMENT (Note 17)	4,151,354	4,436,137	284,783	6.86%
Less: EXPENSES				
Provision for Insurance Losses	5,114,300	3,466,167	(1,648,133)	-32.23%
Operating Expenses (Note 18)	658,894	969,970	311,076	47.21%
TOTAL EXPENSES	5,773,194	4,436,137	(1,337,057)	-23.16%
Excess of Expenses over Assessment	(1,621,840)	0	1,621,840	-100.00%
Add: Income from Investments (net of tax)				
INCOME FROM INVESTMENTS (net of tax)				
Treasury Notes/ Bonds (Peso)	3,025,680	3,327,333	301,653	9.97%
Treasury Bills	145,126	27,498	(117,628)	-81.05%
Treasury Bonds (Dollar)	32,747	33,770	1,023	3.12%
Time Deposit	24,165	31,654	7,489	30.99%
Regular and Special Savings Deposit	20,654	6,819	(13,835)	-66.98%
Gain on Sale of Investments	295	-	(295)	-100.00%
TOTAL INCOME FROM INVESTMENTS (net of tax)	3,248,667	3,427,074	178,407	5.49%
INCOME FROM FINANCIAL ASSISTANCE	267,096	289,606	22,510	8.43%
OTHER INCOME (Note 19)	142,548	76,197	(66,351)	-46.55%
	3,658,311	3,792,877	134,566	3.68%
Net Income (Loss) Before Foreign Currency Revaluation	2,036,471	3,792,877	1,756,406	86.25%
Gain (Loss) in Foreign Currency Revaluation	29,467	42,597	13,130	44.56%
NET INCOME	2,065,938	3,835,474	1,769,536	85.65%

COMPARATIVE STATEMENTS OF CASH FLOWS

	2001 December (restated)	2002 December	Increase / Decrease	
			Amount	%
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from member banks for assessments	4,149,931	4,431,512	281,581	6.79%
Income from savings deposits	25,762	8,598	(17,164)	-66.63%
Income from financial assistance	1,660,071	1,253,123	(406,948)	-24.51%
Income from investments	3,276,174	3,558,577	282,403	8.62%
Collections of various receivables	56,864	41,913	(14,951)	-26.29%
Collections from Subrogated Claims	342,247	100,466	(241,781)	-70.65%
Miscellaneous income	66,780	15,882	(50,898)	-76.22%
Various Inflows	568,502	176,147	(392,355)	-69.02%
Expenses incurred for R/L of closed banks	(632)	(3,344)	(2,712)	429.11%
Payments to suppliers	(224,432)	(576,656)	(352,224)	156.94%
Payments to employees	(34,233)	(367,179)	(32,946)	9.86%
Final taxes and other prepaid expenses	(108,295)	(112,241)	(3,946)	3.64%
Payment of interest on BSP loans	(1,908,638)	(780,149)	1,128,489	-59.13%
Payment of insured deposits	(1,761,496)	(677,603)	1,083,893	-61.53%
Various Outflows	(164,204)	(245,295)	(81,091)	49.38%
Net Cash Provided by Operating Activities	5,644,401	6,823,751	1,179,350	20.89%

COMPARATIVE STATEMENTS OF CASH FLOWS

	2001 December (restated)	2002 December	Increase/Decrease Amount	%
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from matured investments	12,244,833	11,647,939	(596,894)	-4.87%
Gain from sale/exchange of investment	294	-	(294)	-100.00%
Collection of financial assistance granted to member banks	7,735,889	3,009,030	(4,726,859)	-61.10%
Placements in Various Investments	(14,820,132)	(17,426,625)	(2,606,493)	17.59%
Financial assistance granted to member banks	(32,540)	(14,961,975)	(14,929,437)	45880.26%
Capital expenditures	(15,985)	(5,068)	10,917	-68.30%
Net Cash Provided by Investing Activities	5,112,359	(17,736,701)	(22,849,060)	-446.94%
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings from BSP for Financial Assistance		14,954,204	14,954,204	
Payment of Loans to BSP	(8,181,658)	(2,921,941)	5,259,717	-64.29%
Payment of dividend to National Government	(2,750,000)	(1,250,000)	1,500,000	-54.55%
Net Cash Provided by Financing Activities	(10,931,658)	10,782,263	21,713,921	-198.63%
Effect of Foreign Currency Revaluation		1,149	1,149	
Net Decrease in Cash	(174,898)	(129,538)	45,360	-25.94%
Cash and Cash Equivalents at Beginning of Year	357,043	182,145	(174,898)	-48.99%
Cash and Cash Equivalents at End of Period	182,145	52,607	(129,538)	-71.12%
Net Decrease in Cash	(174,898)	(129,538)	45,360	-25.94%

Notes to Statement of Cash Flows:

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

c. Financial Assistance

The Corporation may grant financial assistance to a member bank in danger of closing if there is a viable rehabilitation plan, strong management and full restoration of capital. However, the optimal cost resolution principle must be observed where in the alternative to grant assistance proves less costly than deposit insurance payout and liquidation. Financial assistance may be in the form of loans, purchase of assets, assumption of liabilities or placement of deposits in the recipient bank.

d. Investments

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

e. Dollar-Denominated Assets

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

f. Estimated Insurance Losses

The Corporation records Estimated Insurance Losses intended to adequately cover anticipated losses from operating member banks identified to have high probabilities of closure and closed banks where insurance payments may exceed recovery of assets during liquidation. 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. Determined on an annual basis, the amount of estimated loss reflects the best estimate as to adequacy of reserves against risks in the system.

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

Subrogated Claims Receivable (payments made by the Corporation on insurance claims, see Note 10) is being provided allowance which is estimated using the rates of losses on each closed bank. This is presented as a reduction from the receivable.

Expenses incurred by the Corporation in performing its receivership and liquidation function are recoverable from closed banks (booked as Accounts Receivable-Receivership and Liquidation, see Note 12b) and are provided an allowance for probable losses computed at 70 percent of total receivable outstanding at yearend.

h. Net Assessment Income/Loss

Represents assessment collected from member banks minus a) operating costs and expenses of the Corporation including interest on PDIC borrowings for payout operations; b) provision for uncollectible accounts; and provision for insurance losses, net of loss carry forward.

i. Inventories

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

j. Fixed Assets

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

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

k. Employee Benefit Plan

The Corporation has a contributory Provident Fund and Housing Fund covering all permanent employees. Employees may opt to contribute a percentage of their basic salary to each fund, while the Corporation puts in a fixed percentage of employees' basic salary. Corporate contribution is vested to the employee after completing a year of service in the Corporation.

l. Retained Earnings

The beginning balance of this account was adjusted to reflect prior period adjustments amounting to P66.54 million in compliance with the revised 2000 Statement of Financial Accounting Standards (SFAS) No. 13. The 2001 financial statements were restated to reflect said adjustments.

NOTE 2 - CASH ON HAND AND IN BANKS

This account includes the following:

	2001	2002
	(In Thousand Pesos)	
Cash on Hand /a	1,817	98
Cash in Bank Principal Accounts /b	6,863	18,389
Cash in Bank - Settlement of Claims /c	29,943	9,091
Cash in Bank - Transferee Banks /d	143,463	24,970
Due from BSP	59	59
Total	182,145	52,607

a/ Includes Checks and Other Cash Items received at the close of office hours on the last business day of the year.

b/ Refers to payroll and corporate operating funds; current account maintained in one commercial bank granted financial assistance in CY 1999; and CRL revolving fund.

c/ Funds for payment of claims for insured deposits whereby disbursing officers of the Corporation are deployed to the closed banks to pay claims for insured deposit.

d/ Funds for payment of claims for insured deposits in closed banks where the transfer deposit mode of settlement of claims is deemed most appropriate to adopt. PDIC enters into agreement with Land Bank of the Philippines (LBP) within the vicinity of the closed banks and transfers funds to the LBP branch for the latter to undertake the payout.

NOTE 3 - SHORT TERM INVESTMENTS

This account includes the following:

	2001	2002
	(In Thousand Pesos)	
Treasury Bills/a	569,603	576,218
Dollar Time Deposit/b	893,896	1,021,450
Special Savings Deposit	68,200	43,700
Total	1,531,699	1,641,368

a/ With terms ranging from 167 to 364 days and yield of 5.150 percent to 9.4 percent.

b/ With terms ranging from 22 to 182 days and yield of 2.6 percent to 4.07 percent.

Notes to Financial Statements

NOTE 4 - OTHER CURRENT ASSETS

This account includes the following:

	2001	2002
	(In Thousand Pesos)	
Accrued Interest on Financial Assistance[a/]	392,159	654,896
Prepaid Expenses[b/]	4,470	7,705
Inventory of Supplies and Materials[c/]	8,861	10,852
Accounts Receivable	2,697	5,635
Cash Advance[d/]	634	347
Total	408,903	679,819

a/ Refer to Note 6.
b/ Comprised of prepaid taxes on treasury bills, P3.54 million; prepaid property/health insurance, P3.63 million; others, P0.535 million.
c/ Includes semi-expendable supplies and materials booked under Inventory account in compliance with COA regulations.
d/ Cash advances of officers and staff for travel expenses.

NOTE 5 – LONG TERM INVESTMENTS

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

	2001	2002
	(In Thousand Pesos)	
Government Securities-Global Bonds (Dollar)	355,472	366,228
Government Securities-Treasury Bonds (Peso)	24,503,546	27,353,911
Investment in Preferred Stocks-PNB	-	7,807,018
Total	24,859,018	35,527,157

NOTE 6 - FINANCIAL ASSISTANCE TO BANKS

As of yearend 2002, financial assistance (FA) extended by PDIC, net of repayments, amounted to P43.84 billion. Of the total, P33.77 billion represents FA to 11 banks; P9.68 billion represents balance of the P10 billion worth of government and government-related accounts assigned to PDIC by way of dacion to partially reduce a commercial bank's loan; and P0.39 billion represents swap between BSP's receivable from various rural banks and PDIC's subrogated claims for the implementation of the Countryside Financial Institutions Enhancement Program (CFIEP). Net increase in FA of P18.05 billion from previous year's balance was due to payments/recoveries amounting to P6.59 billion and additional FA granted to banks.

NOTE 7 - DUE FROM BSP TREASURY

Represents funds managed by BSP in behalf of PDIC with the intention of accumulating earnings enough to pay annual interest and principal of loans obtained from BSP. Proceeds of the loans were used to finance assistance extended to two (2) banks in 1997 and 1999 (see notes 6, 13 and 14).

NOTE 8 – GS – TRUST FUND

This refers to the PDIC share in the financial assistance given to a commercial bank in the form of government securities being managed by PDIC in a trust fund.

NOTE 9 – SPECIAL FUND

This account is used to record all recoveries, collections, income and proceeds in relation to the financial assistance to a commercial bank pursuant to the Memorandum of Agreement (MOA) between BSP and PDIC.