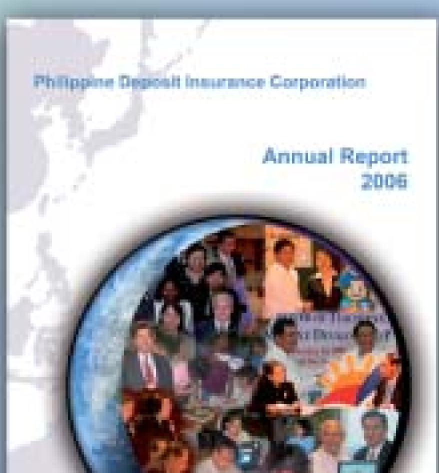
Philippine Deposit Insurance Corporation

Annual Report 2006

"Taking steps toward global recognition as among the leaders in depositor protection."



About the Cover

Philippine Deposit Insurance Corporation's accomplishments in 2006 exemplify its commitment to provide quality service and adherence to sound governance practices.

The Corporation continuously improves its overall organizational efficiency to fulfill its mandate and achieve its vision of global recognition in the field of deposit insurance.

MISSION

We, as
Deposit Insurer,
***Statutory Receiver** and*
***Co-Regulator of Banks**,*
safeguard the interests of the depositing public and thereby contribute to the promotion of financial stability in the economy.

CORE VALUES

In our commitment to public service,
We value:

INTEGRITY
PROFESSIONALISM
EXCELLENCE
TEAMWORK
RESPECT FOR ALL PEOPLE

VISION

*We will be **globally recognized** as among the leaders in depositor protection.*

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PHILIPPINE DEPOSIT INSURANCE CORPORATION

MICHAEL A. OSMEÑA
President

July 2007

HER EXCELLENCY
PRESIDENT GLORIA MACAPAGAL–ARROYO
Malacañan Palace, Manila

Through : **Honorable MARGARITO B. TEVES**
Secretary, Department of Finance
Chairman, PDIC Board of Directors

Dear Madame President:

I have the honor to present the Annual Report of the Philippine Deposit Insurance Corporation for the year 2006. The Report chronicles the Corporation's achievements in strengthening depositor protection and promoting confidence in the banking system.

On behalf of the PDIC Board of Directors, management, and staff, I convey our gratitude to Her Excellency for her support as we affirm our commitment to greater depositor protection.

Very truly yours,

PHILIPPINE DEPOSIT INSURANCE CORPORATION

MICHAEL A. OSMEÑA
President

July 2007

Honorable MANUEL B. VILLAR
President of the Philippine Senate

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

Through : **Honorable MARGARITO B. TEVES**
Secretary, Department of Finance
Chairman, PDIC Board of Directors

Gentlemen:

I have the honor to submit the Annual Report of the Philippine Deposit Insurance Corporation for the year 2006 pursuant to Section 20 of Republic Act 3591, as amended. The Report features PDIC's accomplishments and highlights of operations in its capacities as deposit insurer, statutory receiver, and co-regulator of banks.

On behalf of the PDIC Board of Directors, management, and staff, I thank you for your support in our commitment to safeguard the interests of the depositing public.

Very truly yours,

PRESIDENT'S REPORT

In 2006, the Philippine Deposit Insurance Corporation (PDIC) continued to focus on improving service delivery to the depositing public in fulfillment of its mandate of depositor protection. Swift payouts of claims gave depositors of closed banks quick access to their insured deposits, and helped maintain public confidence in the banking system.

As a service oriented organization, PDIC successfully shortened its turnaround time (TAT) for insurance claims servicing, reckoned from date of bank closure by the Monetary Board. In 10 out of 11 banks closed, the Corporation sustained its single digit TAT, with the average TAT at seven (7) days, an improvement from the already short average of eight (8) days in 2006. The failure to immediately service depositors of Rural Bank of Malinao (Albay), Inc. was due to the refusal of bank owners to turn over records.

The Corporation completed 131 final projects of distribution (FPODs) of banks under liquidation, setting a new record as it surpassed by 9% last year's level of 120. FPODs are final plans of distribution of closed banks' available assets to creditors in accordance with the Rules on Concurrence and Preference of Credits which are submitted to the liquidation court for approval. In cases where recoveries are sufficient to settle claims of ordinary creditors, the servicing of claims of uninsured deposits may also be undertaken. Hence, speedy completion of FPODs will shorten the time frame for the settlement of claims of the closed bank's creditors as the sufficiency of recoveries permit.

To ensure its financial stability, the Corporation achieved further build-up of the Deposit Insurance Fund (DIF). The DIF grew by 3.9% to P49.3 billion from P47.5 billion in 2005. The sustained build-up of the DIF will enable the Corporation to adequately service depositor claims and address potential insurance calls.

The Corporation released Regulatory Issuance (RI) No. 2006-01 prescribing standards for deposit record keeping. The RI seeks to ensure the accuracy and completeness of deposit records of banks. It also aims to promote discipline among banks in implementing proper deposit record keeping for the safety of deposit transactions in banks.

Another major accomplishment for the year was in the area of bank examinations and investigations. The Corporation

completed 15 investigations related to suspected fraud, irregularities and anomalies in 11 closed banks. From these investigations, five criminal cases were filed with the Department of Justice for resolution, while seven administrative cases were lodged with the Administrative Hearing Committees which shall hear these cases and recommend appropriate action to the PDIC Board.

Based on the belief that education is crucial to depositor protection, the Corporation strengthened its public awareness program by undertaking projects aimed at the youth. PDIC collaborated with the Department of Education (DepED) on a financial literacy project involving integration into the high school curriculum of information on savings consciousness, the role of the PDIC in the financial system, and other related information. The project produced supplemental instructional materials called Teacher's Guides in the subject areas of economics and values education. The school-based financial literacy project is expected to reach five (5) million students all over the country yearly and is a pioneering effort among deposit insurers in the Asian region. Arrangements to broaden the project's coverage to include private high school students are underway.

Meanwhile, the financial literacy project was expanded to the college level as PDIC coordinated with the Commission on Higher Education (CHED) for a similar curriculum integration in the tertiary level.

Continuing efforts to educate and strengthen linkages with other stakeholders were also conducted during the year. An information campaign aimed at members of the judiciary and external counsels engaged by the PDIC was undertaken to help familiarize Mindanao-based external counsels, members of the judiciary and other government lawyers with the receivership and liquidation process as well as the major amendments to PDIC's Charter. In the long-term, the institutional program is expected to enhance the Corporation's operational efficiency by increasing awareness and appreciation of the role of the judiciary and external counsel in pursuing PDIC's mandate.

The Corporation also pursued advocacies on consumer protection and education with co-members of the Financial Sector Forum (FSF) and the ConsumerNet. FSF is an inter-agency organization composed of financial supervisors and regulators namely, the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission, the Insurance Commission and the PDIC aimed at resolving supervisory gaps in the financial system. ConsumerNet, on the other hand, is an alliance of government agencies and local government units (LGUs) dedicated to the advancement of the rights and welfare of consumers.

The Corporation further strengthened linkages with other deposit insurers all over the world. For the first time in its 43-year history, the PDIC co-hosted in the country a regional meeting and international seminar. In cooperation with the Asian Development Bank, PDIC mounted the 4th International Association of Deposit Insurers-Asia Regional Committee Meeting and International Seminar. A total of 70 top-level delegates from 13 member countries and other institutions participated in the meeting/seminar with the theme *"Integrating Financial Supervision and the Role of Deposit Insurers"*.

The PDIC also set in place the organizational infrastructure needed to strengthen corporate governance. Committees at the board level provided oversight supervision over audit and risk management issues. At the management level, the executive and management committees continued to provide professional direction for the organization to perform its mandate effectively. During the year, the Corporate Assets Disposal Committee and Loan Workout Executive Committee were set up to oversee disposal of PDIC acquired assets, and collection of loan receivables, respectively.

The Corporation's accomplishments for the year were guided by strict observance of the principles of transparency, accountability and independence, as a result of which PDIC earned a citation as the number two best-governed Government Owned and Controlled Corporation in the country in the maiden conduct of the corporate governance scorecard initiative for 31 state-owned firms by the Institute of Corporate Directors (ICD). The ICD is a non-government organization that promotes best practices in corporate governance and corporate social responsibility.

Future Directions

The Corporation will continue to improve its overall organizational efficiency in order to contribute to maintaining public confidence in the stability of the banking system and fulfill its vision of global recognition as one of the leaders in depositor protection.

In line with these directions, the PDIC will undertake new institutional strengthening and capacity building projects. Foremost among these priorities is the further strengthening of governance and management through the formulation of a governance code to support existing organizational infrastructure, the adoption of risk-based approach in audit and enhancement of policies and systems, and the adoption of an enterprise-wide risk management system and information security management system that will eventually lead to the formulation of a corporate business continuity plan.

An important principle consistently adhered to in PDIC is the advancement of the Corporation's most important resource, its people. Hence, employee welfare will be further enhanced by providing training opportunities to improve skills, proficiency and competency; and strengthening the Corporation's merit-based performance management system.

We reiterate our commitment to further advance the cause of depositor protection and meet future challenges with resolve to carry out our mandate.

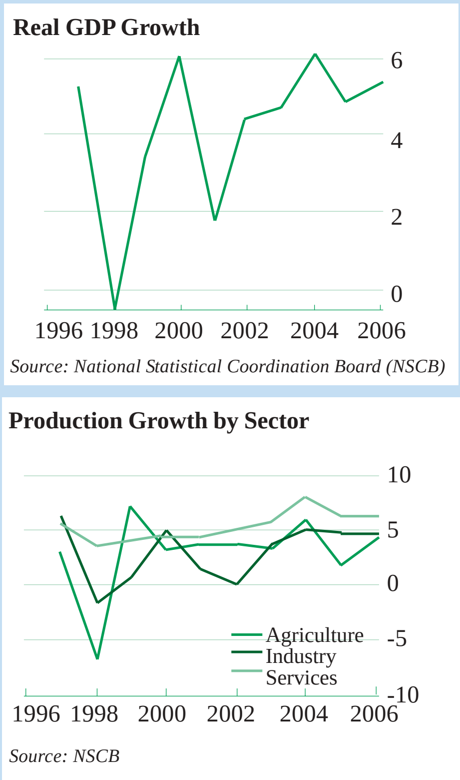
MICHAEL A. OSMEÑA

ECONOMY AND BANKING

I. The Economic Environment

The Philippine economy sustained its growth momentum in 2006. Gross domestic product (GDP) grew by 5.4%, from 5.0% in 2005, driven primarily by merchandise exports and consumption spending. Exports recovered owing to robust global demand for electronics and garments while strong overseas remittances and stable prices supported private consumption. Capital formation slightly improved from previous year's level with a boost from public construction. Government expenditures, while restrained by efforts to reduce the national government's deficit, likewise picked up with the passage of a supplemental budget in the last quarter.

Figure 1



Service sector boosted economic growth, recording the best performance particularly in the telecommunications, business process outsourcing (BPO), and tourism. Agriculture also performed remarkably well with better weather conditions during the first half of 2006 and expanded harvested area. In contrast, the industry sector's growth slightly tapered due to sluggish showing of manufacturing particularly of sub industries like machinery (except electrical), wood and cork products, tobacco manufacturers, transport equipment, and textile manufacturers even as beverages, paper, leather, non-metallic minerals, metal, and electrical machinery showed some expansion.

Economic indicators improved with average inflation rate declining to 6.3% from 7.7% in 2005 while the peso strengthened to an average of ₱51.3 per US dollar compared to ₱55.1 the previous year. Given relatively lower prices and a stable foreign exchange rate, the BSP kept policy rates steady at 7.5% for overnight borrowing or reverse repurchase (RRP) rate and 9.8% for overnight lending or repurchase (RP) rate. Average 91-day Treasury bill rate went down to 5.3% in 2006 from 6.4% in 2005.

Figure 2

II. Performance of the Philippine Banking System

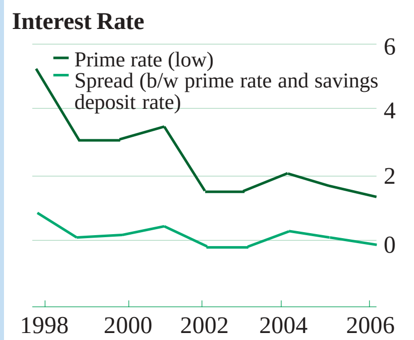
The overall performance of the Philippine banking system picked up in 2006 buoyed by strong macroeconomic fundamentals and positive consumer and investor sentiments. Banks reported stronger balance sheets and improved profitability. Much of the gains were due to the continuous unloading of non-performing assets (NPAs) and the expansion of bank lending operations. The strengthening of the fiscal position led to a slowdown in government's financing needs and reduced the issuance of government securities, which have been the banks' primary investment outlet given low loan demand. This supported the low-interest rate environment that prevailed throughout 2006, encouraging banks to expand their lending portfolios to achieve better returns on their funds.

Total assets of the banking system grew by 12.6% from ₱4.3 trillion in 2005 to ₱4.9 trillion in 2006. Gross loans, which increased by ₱273.5 billion principally accounted for the growth. There was a notable increase in loans extended to financial institutions, real estate firms, and wholesale and retail traders. Consumer finance was also in upswing as demand for loans by private households for automobiles, credit cards and residential properties grew. Loan growth from these sectors, however, was tempered by the slowdown in mining and quarrying, manufacturing, and construction sectors.

Asset expansion was supported by deposit growth of ₱526.3 billion or 17.7% in contrast to asset growth in 2005 which was largely financed by borrowings. Deposit expansion stemmed from increased savings due to remittances from overseas Filipino workers (OFWs) and limited offerings of government securities. Time deposits and savings deposits grew by 20.8% and 14.4%, respectively. The improvement in the deposit base allowed banks to reduce the volume of borrowings of the banking sector to ₱380.0 billion from ₱464.9 billion the previous period.

Asset quality improved with the ₱41.4 billion reduction in NPAs from a total stock of ₱413.0 billion to ₱371.6 billion. This was achieved through bulk sales to asset management companies following the extension of the Special Purpose Vehicle (SPV) Act in early 2006, public auctions, debt write-offs, and joint venture partnerships between real estate companies and banks. Real and other properties acquired (ROPA) and non-performing loans (NPL) decreased by ₱17.4 billion (5.2%) and ₱19.6 billion (10.2%), respectively during the year. Between 2004 and 2006, asset resolution transactions resulted in a ₱128.3 billion decline in NPAs.

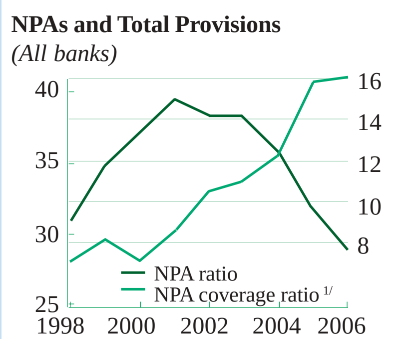
Figure 3



Source: BSP

The banking system reported a net income of ₱57.5 billion up by 29.8% from ₱44.3 billion in 2005. Accordingly, earning ratios improved during the period. Return on assets (ROA) increased to 1.3% from 1.2% in 2005, while return on equity (ROE) rose to 10.5% from 8.6% during the same period.

Figure 4



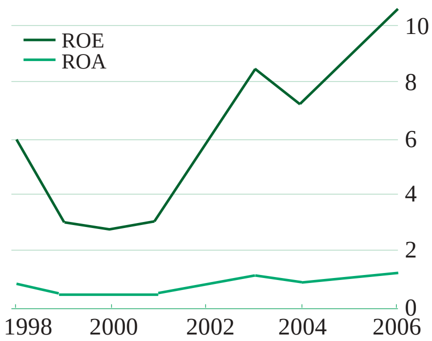
Source: PDIC

1/ Loan loss provision plus allowance for probable losses, (ROPA) over NPLs plus ROPA

Total interest income increased to ₱301.3 billion, ₱22.0 billion higher than that earned in 2005. This growth came mainly from lending, which grew by ₱19.3 billion to ₱199.2 billion from ₱179.9 billion. This compensated for the decline in investment income, which dropped by 3.6% to ₱84.9 billion

Figure 5

Total Bank Earnings



Source: PDIC

from ₱88.1 billion as a result of lower yields on government securities and the contraction in investment portfolios of banks. Growth in other operating income of banks through trading gains and fee-based type businesses like money transfer and payment services also supported net income growth. Other operating income in 2006 increased by 32.8% to ₱91.2 billion from ₱68.7 billion in 2005.

Provisions for probable losses grew slightly faster at 20.0% in 2006 compared to 15.2% in 2005 following the growth in lending. Improvements in deposit structure and total borrowings allowed banks to reduce growth in interest expense to 11.7% (₱15.2 billion) from 13.7% (₱16.0 billion). Interest expense amounted to ₱145.9 billion, up from ₱130.7 billion in 2005 mainly due to deposit growth. Other operating expenses were also higher during the year at ₱164.0 billion compared to ₱146.5 billion the preceding year, mostly due to adjustments in compensation and benefits, and increase in tax payments and other expenses.

To gear up for the implementation of Basel II in 2007, banks strengthened their capital base. The banking sector's total capital grew by 11.3% from ₱518.2 billion in 2005 to ₱577.0 billion in 2006 but due to improved profitability and infusion of additional capital as part of banks' capital build-up programs, they issued hybrid financial instruments such as unsecured subordinated debt or USD as hybrid Tier 1, and supplementary Tier 2 capital, raising as much as ₱25.0 billion of USD-related capital. BSP data showed that the risk-based capital adequacy ratio (RBCAR) of the banking system on consolidated basis improved to 18.1% in December 2006 from 17.6% in December 2005, way above the regulatory requirement of 10.0%.

Table 1
Selected Balance Sheet Accounts 2002-2006
(In billion pesos)

	2002	2003	2004	2005	2006
Asset Accounts					
Total Assets	**3,477**	**3,661**	**4,024**	**4,318**	**4,863**
Cash on Hand and Due from banks [a/]	332	285	321	386	633
Investments [b/]	791	897	1,151	1,188	1,187
Gross Loans	1,857	1,982	2,024	2,154	2,428
Real and Other Properties Acquired (ROPA) - Gross	218	239	248	235	218
Non-Performing Loans [c/]	288	292	263	192	173
Non-Performing Assets [d/]	496	523	500	413	372
Liabilities and Capital Accounts					
Total Liabilities	**3,013**	**3,182**	**3,518**	**3,800**	**4,286**
Total Deposits	2,353	2,469	2,767	2,971	3,498
Demand	302	329	363	402	504
Savings	1,446	1,471	1,495	1,488	1,687
Time	605	668	908	1,082	1,307
Borrowings	359	382	387	465	380
Unsecured Subordinated Debt	-	35	51	51	75.6
Other Liabilities	258	251	278	288	313.4
Capital	**464**	**480**	**506**	**518**	**577**
Contingent Account	1,941	2,506	2,460	2,564	4,245

Source: Reports submitted by banks to PDIC
**Figures may not tally due to rounding off.*

[a/] *Cash on hand plus COCI plus due from BSP plus due from PCHC plus due from banks*
[b/] *Trading account securities plus available for sale securities plus investment in bonds and other debt instruments*
[c/] *Past due loans plus items in litigation*
[d/] *Non-performing loans plus ROPA, excluding sales contract receivables*

There is much optimism that the strong performance will be sustained in 2007 given the favourable economic outlook and improved business environment. The implementation of key financial reforms such as the adoption of the New Basel Accord and the shift to the new accounting and reporting standards is expected to prepare banking institutions for greater competition in the domestic and international fronts.

Table 2
Selected Profit and Loss Accounts 2002-2006
(In billion pesos)

	2002	2003	2004	2005	2006
Interest Income	199	205	243	279	301
Interest Expense	102	102	115	131	146
Net Interest Income	97	103	128	149	155
Other Operating Income	67	71	61	69	91
Other Operating Expense	117	120	133	147	164
Provisions for Losses	26	24	20	23	27
Net Operating Income	21	30	37	48	55
Net Income After Tax	26	40	35	44	58

Source: Reports submitted by banks to PDIC

RISK ASSESSMENT AND MANAGEMENT

Assessment

Deposit Liabilities and Assessment Due from Member Banks
(Amounts in Billion Pesos)

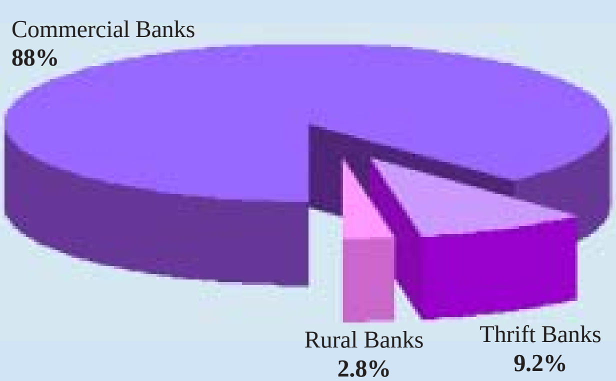
Bank Type	2006				2005			
	Member Banks	Total Deposits [a/]	Insured Deposits	Assessment [b/]	Member Banks	Total Deposits [a/]	Insured Deposits	Assessment [b/]
Commercial Banks	39	3,061.77	684.55	5.71	41	2,617.71	631.23	5.17
Thrift Banks	84	332.11	103.49	0.60	84	261.35	89.27	0.51
Rural Banks	739	94.22	64.64	0.18	754	81.38	57.26	0.15
Total	862	3,488.10	852.69	6.49	879	2,960.44	777.75	5.83

a/ Deposits in banks excluding overseas branches.
b/ Amounts due from member banks for the periods ending June and December payable not later than July 31 and January 31, respectively.

Total deposits subject to assessment in Philippine banks reached P3.5 trillion as of end 2006, up by 17.8% from P3.0 trillion in 2005. The expansion of total deposit base in 862 member banks resulted in an 11% growth in PDIC's assessment to P6.5 billion from P5.8 billion in 2005. Commercial banks accounted for 88% of total assessment, thrift banks, 9.2% and rural banks, 2.8%.

Of the P3.5 trillion total deposits subject to assessment at the close of 2006, P852.7 billion or 24.4% held in 29.9 million deposit accounts, were within the maximum deposit insurance coverage of P250,000.

2006 Assessment Due from Member Banks



Risk Assessment

Review and enhancement of the Offsite Bank Rating Model (OBRM) were undertaken in 2006 to update the model and make it more effective in capturing the true state of banks in relation to other banks and developments in the industry. This involved the adoption of risk-based financial indicators of bank performance and condition; and the rationalization of the method for setting and updating industry and peer group benchmarks.

The OBRM generates periodic risk rating of individual member banks using banks' financial statements, examination findings of the Bangko Sentral ng Pilipinas (BSP), and information sourced from credit rating agencies, enabling the Corporation to identify banks for closer monitoring and subsequent in-depth desk analysis and/or on-site examination. The OBRM results are used in the periodic review of the Deposit Insurance Fund (DIF) target as well as for planning allocation of resources in anticipation of potential insurance calls.

Following the Information Exchange Agreement between the BSP and PDIC, OBRM results are periodically shared with the BSP to evaluate consistency with the results of their own offsite analysis and reach agreement on prompt corrective regulatory responses to be pursued for banks of major supervisory concern.

In support of PDIC's co-regulatory mandate and to assist in claims and receivership operations, the Corporation released Regulatory Issuance (RI) No. 2006-01 on August 15, 2006. The RI implements Section 9(d)(1) of Republic Act 9302 stipulating that each insured bank shall keep and maintain a true and accurate record or statement of its daily deposit transactions consistent with the standards set by the BSP and PDIC. It is also intended to promote discipline among banks in implementing proper deposit record keeping for the safety of deposit transactions in banks.

The new RI required banks to submit their operations manual on record keeping of deposits, features of their computerized database, schedule of deposit products and bank certification on or before September 29, 2006. Thereafter, the schedule of deposit products and the required bank certification are to be submitted on a semestral basis, i.e., January 31 and July 31 of each year while any updates/changes in the operations manual and/or features of the computerized database shall be submitted within 30 days from effectivity thereof.

Compliance rate for the first year of implementation was over 90% among 862 banks covered by the initial submission requirement.

Risk Management

A. Offsite Monitoring

Banks-at-Risk (BAR), or those banks which, based on the OBRM, present a high probability of risk to the DIF, are subjected to more in-depth offsite monitoring and prioritized for onsite examination. This enables the Corporation to understand its risk profile as well as identify and implement appropriate resolution modes.

In 2006, PDIC initiated the enhancement of the framework and guidelines for the Offsite Analysis Report (OAR). Offsite risk analysis involves reviewing, analyzing and monitoring the financial reports of banks, examination reports and other relevant information to evaluate the risk profile of individual banks and spot any emerging risks affecting groups of banks due to internal or external factors.

B. Onsite Examination

Preparation of Risk-Based Examination Manual

The Corporation started the preparation of a risk-focused examination manual being harmonized with the BSP Manual of Supervision and Examination. Through the risk-focused approach to onsite examination, PDIC aims to effectively evaluate the safety and soundness of banks' operations, and assess risk management systems, financial condition and compliance wih relevant laws and regulations.

Compliance Review of Banks under Financial Assistance

As part of the regular monitoring activities in 2006 of banks with financial assistance (FA), the Corporation examined one (1) expanded commercial bank, two (2) regular commercial banks, and two (2) thrift banks during which special audit procedures were done as warranted by the unique circumstances surrounding the banks, as well as the specific provisions of their respective FA Agreements.

C. Grant of FA to Banks

PDIC may grant financial assistance to banks in danger of closing if the Corporation finds that the continued operation of such bank is essential to provide adequate banking service in the community or maintain financial stability in the economy.

Prior to the exercise of this authority, PDIC has to make a determination that the costs of actual payout and liquidation of the bank concerned will be more expensive than the grant of financial assistance.

During the year, PDIC granted a total of P16.6 billion in financial assistance to two (2) commercial banks to help strengthen their capital base. FA in the form of direct loans is 75.58% secured. Banks under FA are generally compliant with the terms and conditions of the FA agreements.

Banks paid to PDIC a total of ₱1.29 billion in interest during the year. An assisted bank fully settled its P960 million outstanding loan obligation to PDIC in November 2006. Accordingly, PDIC fully paid its outstanding loan from BSP which funded the assistance.

Following last year's successful joint sale of the PDIC and National Government (NG) shares in the Philippine National Bank in 2005, the Corporation handled for NG the sale of additional shares to small local investors in compliance with the Privatization Law.

D. Evaluation of Mergers, Consolidations and Acquisitions

To pursue expansion plans and ensure long-term viability and sustainability, banks merge, consolidate, or acquire other banks/banking units, subject to the approval of PDIC and the BSP. In 2006, PDIC evaluated and granted consent to nine (9) proposals for merger and consolidation and 17 for acquisition of branches.

Asset Management

The Asset Management and Disposal Group was created in April 2006 for the efficient disposition and management of assets acquired from distressed banks and as payments of PDIC receivables from closed banks. The Group is tasked to collect loan receivables and to manage and dispose ROPA including those paid to the Corporation by closed banks in the course of the Corporation's performance of its function. During the year, the policy on asset disposal was approved by the Board. The Loan Workout Executive Committee and the Corporate Loan Workout Committee were both reconstituted in order to more judiciously manage the collection of loan receivables.

Out of the ₱31.4 billion assets acquired by the Corporation from banks granted FA, about 16.7% or ₱5.2 billion were resolved from 2002 to 2006. Loan collections accounted for 88% or ₱3.4 billion while recoveries on ROPA amounted to ₱147.4 million. On the other hand, recoveries from other assets amounted to ₱1.7 billion.

Recovery efforts in 2006 included cash settlements, *dacion en pago* arrangements, foreclosures, rental and sale of assets that resulted in total collection/recovery of ₱1.3 billion. As part of the initiatives to facilitate disposal of the ROPA, PDIC participated in the Government's Housing Fair Program launched on October 27, 2006 in Makati City. The Program will run up to April 30, 2007. To date, four (4) properties have been sold under the Program at a total disposal price of ₱5.5 million.

The Corporation continued to undertake programs to improve its effectiveness in managing these acquired assets such as upgrading of accounts information systems, instituting policies and guidelines towards efficient asset management and marketing the assets extensively to expedite and maximize recovery.

PDIC Executive Vice President Imelda S. Singzon discusses with Republic of the Philippines Vice President Noli de Castro and heads of government agencies during the launching of the Government's Housing Fair Program, "Ugnayan sa Pabahay".

RECEIVERSHIP AND LIQUIDATION

1. PDIC takeover team posts the notice of closure for public information. 2. PDIC personnel assists depositors during bank takeover operations.

Bank closures

The PDIC as statutory receiver, took over 11 banks ordered closed by the Monetary Board in 2006. Except for one (1) thrift bank, the banks taken over during the year were rural banks located in Luzon and Visayas. Closure details follow:

Name of Bank	Province	Date Ordered Closed by MB
Rural Bank of Zamboanguita, Inc.	Negros Oriental	01/05/06
Rural Bank of 21st Century, Inc.	Bulacan	01/19/06
Merchants Rural Bank of Talavera	Nueva Ecija	01/26/06
Rural Bank of Tangalan, Inc.	Aklan	01/26/06
Urduja RB of Tayug, Inc.	Pangasinan	02/02/06
The Center Rural Bank, Inc.	Metro Manila	02/23/06
Rural Bank of Pilar, Inc.	Capiz	07/06/06
Rural Bank of Malinao, Inc.	Albay	07/06/06
First Coconut Rural Bank, Inc.	Batangas	07/27/06
The Bank of Cebu (A Development Bank)	Cebu	08/31/06
Rural Bank of Narra, Inc.	Palawan	12/07/06

The takeover of closed banks brought the total number of banks under receivership/liquidation as of yearend 2006 to 451, consisting of two (2) commercial banks, 56 thrift banks and 393 rural banks.

To further improve efficiency in receivership operations, the Corporation enhanced the preparation of statement of affairs and reports.

Asset Administration and Recovery from Closed Banks

The combined Estimated Realizable Value of Assets (ERVA) of the aforesaid 451 banks under receivership and liquidation amounted to ₱13.9 billion, down by 6% from the ₱14.8 billion ERVA in 2005. ERVA is the recoverable amount from the assets of closed banks based on estimated gain or loss given the available information and current status of the

ERVA and Liabilities of Closed Banks under PDIC R/L
(Amounts in Million Pesos)

	No. of Banks	ERVA	Liabilities
Banks under Receivership	6	₱ 311.13	₱ 618.24
Banks under Liquidation	445	₱13,564.00	₱ 38,641.63
Total	**451**	**₱13,875.13**	**₱ 39,259.88**

assets and liabilities of the bank. The amount that may be recovered from the assets of a closed bank will be for distribution to satisfy the claims of its depositors, creditors and stockholders and its established liabilities. PDIC is normally the major creditor of closed banks due to insured claims paid. Thirty-two percent (32%) of the ₱13.9 billion ERVA consisted of cash and investments in government securities, while 68% consisted of non-cash assets. Liabilities of the closed banks aggregated to P39.3 billion of which P24.1 billion was payable to the government. Of the ₱24.1 billion payable to the government, PDIC's claim for subrogated deposits and receivership and liquidation expenses amounted to ₱13.2 billion and ₱777 million, respectively.

Total cash recoveries from liquidation of closed banks for the year reached ₱232.5 million in contrast to total liabilities of ₱777 million. PDIC's subrogated claims account for 33.6% of total liabilities. Of this amount, ₱166 million were from loan collection, ₱55.7 million from property disposal, and ₱10.8 million from collections of other receivables and rental income.

Cash recoveries are held in trust funds and invested in government securities pending distribution to creditors. Trust funds held by PDIC on behalf of closed banks amounted to ₱4.3 billion as of yearend. Of this amount, ₱597.5 million was invested in time deposit, ₱45.3 million in special savings deposit, ₱144.4 million in treasury bills, ₱1.2 billion in fixed-rate treasury notes/bonds and ₱2.3 billion in global bonds. Prudential management of funds held in trust resulted in accumulated earnings amounting to ₱341 million.

Disposal of Real and Other Properties Acquired (ROPA)

Corporate policy dictates that the primary mode of ROPA disposal is sale via public biddings. In the event of failed biddings, the Corporation may enter into negotiated sale of assets.

Six hundred forty one (641) properties, mostly outside Metro Manila, with a total disposal price of P256.6 million were offered for public biddings during the year. Of this, 128 real estate properties from 49 closed banks were sold for ₱46.4 million, of which 34 properties amounting to ₱20.8 million were thru public bidding. This generated a premium over estimated value of P5.9 million for the closed banks. The remaining 94 properties at ₱25.6 million were sold thru negotiated sale. Of this, 68 properties aggregating ₱15.1 million were sold for cash. Twenty-six (26) properties amounting to ₱10.6 million were sold on staggered payment terms.

To heighten public awareness, bidding activities were conducted onsite rather than in the Corporation's head office, thus paving the way for greater asset disposal.

Asset Distribution

Hastened liquidation of closed banks led to the completion of 131 final projects of distribution (FPOD) in 2006, setting a new record of FPODs completed in a year since the Corporation assumed receivership/liquidation function in 1992. Sustaining the previous year's feat, the FPODs of two (2) banks, namely the Rural Bank of 21st Century (Bulacan) and Urduja Rural Bank of Tayug (Pangasinan), which were closed in 2006, were completed within the year.

A bank's FPOD is a distribution plan of its available assets to creditors in accordance with the Rules on Concurrence and Preference of Credits. It is submitted to the liquidation court for approval.

In 2006, the liquidation courts approved the distribution of P67.6 million to creditors. Based on the courts' approval, PDIC paid P18.1 million as liquidating and surplus dividends to creditors while P5.6 million was distributed to settle R/L expenses advanced by PDIC and trust accounts. The balance of P43.9 million shall be for distribution subject to documentary compliance by creditors.

As of yearend, an accumulated amount of ₱8.3 billion had been paid either partially or totally to creditors either in cash or through assignment of assets. Cash payments reached ₱5.3 billion, with the remaining payments through assignment of assets.

To further maximize recovery from liquidation of closed banks' assets, the Corporation reviewed and enhanced processes for disposal and distribution of assets.

Asset Distribution *(Amounts in Million Peso)*

	For the Year 2006	As of Year-End 2006
Distribution of Assets approved by the liquidation court (cash and non-cash)	₱ 67.63	₱ 8,490.52
Breakdown of distribution:		
R/L Expenses	5.36	261.94
Trust Accounts	0.22	75.60
Liquidating and Surplus Dividends	18.10	7,936.95
Distributed/paid to the following agencies:		
Due to National Government - BTR/BIR/APT	-	2,623.01
Philippine Deposit Insurance Corporation (PDIC)	7.04	866.36
Bangko Sentral ng Pilipinas (BSP)	9.86	642.80
Central Bank-Board of Liquidators (CB-BOL)	-	3,521.96
Others	1.20	282.82
Still for Distribution	43.95	216.03
Total	**₱ 67.63**	**₱ 8,490.52**

Note: ₱23.7 million came from closed banks whose PODs were approved by the liquidation courts during 2006. The total amount of ₱199.4 million was posted as payments to creditors during the year.

Bank Rehabilitation

For the first time in Philippine history, a closed cooperative bank was successfully rehabilitated. The rehabilitation of the then closed Cooperative Rural Bank of Misamis Occidental was approved by the PDIC Board and the Monetary Board on April 21, 2004 and August 26, 2004, respectively. It is now known as Misamis Occidental Cooperative Bank (MOCB). Over the last two (2) years, the nine (9) investors, composed of eight (8) cooperatives and one (1) cooperative rural bank closely coordinated with the PDIC and the Cooperative Development Authority to effect the bank's rehabilitation. The formal turnover of the bank to the rehabilitation committee and interim board of directors was set for 2007.

This undertaking, which was guided by the principle of reasonable burden sharing among the bank's stakeholders, underscored the commitment of government financial regulators to assist in the development of the rural economy and to strengthen the public's confidence in the stability of the banking system. It also highlighted the importance of adequate capital infusion and competent management as key factors to successful rehabilitation of banks.

CLAIMS SERVICING

PDIC personnel service claims for insured deposits with the welfare of depositors foremost in mind.

Single Digit Turnaround Time

The Corporation sustained its ability to commence claims settlement operations (CSO) within a single-digit turn-around-time (TAT), the number of days from date of closure up to the start of insurance claim payouts. This was achieved in 10 out of 11 banks ordered closed by the Monetary Board in 2006, with the exception of Rural Bank of Malinao (Albay), Inc. due to extraordinary circumstance. The TAT for claims servicing averaged seven (7) days, which was shorter by one (1) day from last year's average TAT of eight (8) days.

The TAT for RB Malinao extended to 145 days due to the delay in the turnover of records by the owner of the closed bank. This seriously hampered the reconciliation and preparation of financial reports and the examination of deposit accounts which are basis for payment of claims.

The 11 banks closed in 2006 had estimated insured deposits (EID) of ₱1.2 billion involving 40,759 accounts. Insured deposits paid reached ₱925.1 million or 79% of total insured amount. Of the total insured deposit accounts, 44% or 17,924 deposit accounts have been paid out of 40,759 accounts which claims have been filed.

Since the first PDIC payout operation in 1970, total claims filed for insured deposits aggregated ₱16.4 billion covering 1.5 million deposit accounts. Of this amount, ₱16 billion or 92% of the total estimated insured amount and 72% of the estimated insured deposit accounts, have been paid. The balance of ₱450 million remained unsettled as of yearend due to documentary deficiencies, the need for further verification of accounts, legal impediments, or inability of depositors to file insurance claim despite written notices sent them.

To ensure efficient and prompt payment of deposit insurance claims, refinements to existing systems were introduced during the year. These included the following: (a) integration of interest rate computation in the Register Generation System to immediately determine interest due on insured deposits net of loans payable to the closed banks; (b) integration of a filtering feature in the templates of deposits and loans data to facilitate tracking of encoding errors; and (c) improvements in the One Claim System on reportorial requirements as well as additional security/control features.

The Corporation likewise finalized the Guidelines on Claims Settlement/Documentation for implementation in 2007 to simplify claims servicing for depositors.

Claims for Subrogated Deposits

Under the law, the Corporation files with closed banks its claims for subrogated deposits and charges the expenses it incurred during takeover, payout operations and liquidation of assets. Recoveries from subrogated claims help preserve the DIF to ensure fund stability and adequacy for any insurance calls.

The Corporation filed claims for subrogated deposits amounting to ₱8.9 billion against 90 closed banks. This brought the gross total claims filed by PDIC to ₱14.5 billion or 91% of total subrogated deposits amounting to P16 billion. Claims for the remaining amount of P1.5 billion in subrogated deposit against 17 closed banks were being finalized as of yearend.

Recoveries from subrogated claims against 10 closed banks during the year totaled ₱5.4 million bringing cumulative recoveries to ₱2 billion as of yearend. This represents a recovery rate of 12.6% against total subrogated deposits of ₱16 billion. The minimal amount of recovery from closed banks is due largely to dissipated assets prior to bank closure.

Claims Settlement Operations (CSO)
As of December 31, 2006
(Amounts in Million Pesos)

Particulars	Banking Units	Total Deposit Liabilities		Estimated Insured Deposits		Claims Filed [1/]		Insured Deposits Paid	
		Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount
Banks started CSO prior to 2006		5,713,924	32,825.00	2,072,534	16,162.15	1,523,498	15,464.43	1,513,236	15,076.49
Banks started CSO in 2006	30	40,773	1,331.75	40,759	1,178.11	19,366	986.33	17,924	924.95
The Bank of Cebu (A Development Bank)	7	7,600	254.33	7,600	168.76	5,622	160.80	5,583	159.54
RB Zamboanguita (Negros Oriental), Inc.	1	1,424	8.65	1,424	8.65	677	8.22	662	8.12
RB 21st Century (Balagtas), Inc.	4	2,807	159.98	2,807	139.42	2,206	136.23	2,201	135.87
Merchants RB of Talavera	8	7,921	404.80	7,917	377.51	4,496	370.11	4,340	352.05
RB Tangalan (Aklan), Inc.	2	5,364	48.50	5,364	39.89	1,868	38.67	1,836	37.76
Urduja RB Tayug (Pangasinan), Inc.	1	778	21.41	778	20.30	393	19.36	361	15.60
The Center RB (Metro Manila), Inc.	1	2,808	238.19	2.808	237.55	1,164	103.86	827	78.90
Rural Bank of Pilar (Capiz), Inc.	2	975	10.94	965	9.66	496	8.92	488	8.63
Rural Bank of Malinao (Albay), Inc.	1	6,084	15.65	6,084	15.32	942	6.53	190	4.57
First Coconut Rural Bank (Batangas City), Inc.	1	530	37.76	530	37.46	395	36.39	394	36.32
Rural Bank of Narra (Palawan), Inc.	2	4,482	131.54	4,482	123.59	1,107	97.23	1,042	87.60
Grand Total		**5,754,697**	**34,156.75**	**2,113,293**	**17,340.26**	**1,542,864**	**16,450.76**	**1,531,160**	**16,001.44**

[1/] *Does not include:*
a. claims for 303 accounts in the amount of ₱49.1 M which are not included in the Masterlist
b. claims in the amount of ₱56.5 M in excess of the insured deposits

PDIC team braves super typhoon to serve closed bank depositors in Albay

On November 29, 2006, the payout of insured deposits in the closed Rural Bank of Malinao (Albay), Inc. started after four months of intensive forensic accounting. Among all the banks closed during the year, only RB Malinao's claims settlement operations fell short of single digit TAT due to the lack of bank records. It was therefore a relief both to the depositors and the PDIC that payout finally commenced. However, the following day, super typhoon Reming (International Code Name: Durian) hit the Philippines. The howler ravaged Bicol, and left the province in shambles.

The PDIC staff deployed in RB Malinao recognized that the depositors of the closed bank were in direr straight than they were, being victims of the twin misfortunes of delayed claims settlement and the typhoon's ravaging effects to life and property. Putting second their safety, they opted to stay on to be able to service depositor claims. Bereft of rest and adequate meals due to scarcity of food and drinking water, the PDIC team immediately resumed payout operations on December 1 after the typhoon. The team fulfilled their two-week deployment schedule, with in-between activities of clearing the debris in the bank, and repairing destroyed windows and leaking ceilings. For days, the team could not communicate with their loved ones who were wondering about their safety. Despite the difficulties they faced, the team felt good that its mission was accomplished. For the duration of the initial payout from November 29 to December 15, 2006, PDIC paid 197 claims amounting to P4.6 million. This represented 77.3% of the total amount of claims filed aggregating P5.9 million.

Another round of payouts took place from February 20 to March 2, 2007 at the bank premises in Malinao, Albay.

The storm claimed hundreds of lives and left thousands homeless. All electricity and communication lines were cut. The homes where the PDIC employees were temporary billeted were damaged, some so severely that the staff had to transfer to another refuge.

The typhoon shook the bank's structure. Strong winds rattled the ceiling, glass windows and doors. At its peak, the storm dislodged the bank's wall-mounted air conditioning units.

The bank was in disarray and could not be used for payout operations hence the team set up a temporary office in a terrace outside the bank.

SUPPORT INFRASTRUCTURE

Legal Affairs

The Corporation's Legal Affairs Sector (LAS) completed 11 investigations related to suspected fraud, irregularities and anomalies in 11 closed banks, resulting in the filing of five criminal cases with the Department of Justice for resolution. A total of seven (7) administrative cases were lodged with the Administrative Hearing Committee (AHC) which shall hear these cases and recommend appropriate action and sanction/s on the respondents to the PDIC Board.

In addition, the Corporation demanded recoveries in closed banks by filing civil cases. A total of 35 cases with an aggregate principal amount of ₱39 million were decided in favor of closed banks represented by PDIC as liquidator, while eight (8) cases were favorably dismissed/terminated. Also, 483 cases handled by external counsel involving 87 closed banks were audited during the year. As a result of the audit, 172 cases were terminated while 97 cases were being evaluated for cost vis-a-vis expected benefit as of yearend.

Cognizant of the need to protect the welfare of assigned personnel while pursuing PDIC's investigative mandate, the Board approved the operations manual on legal indemnification and implemented it during the year. As authorized by its Charter, the Corporation will underwrite or advance litigation costs and expenses of external counsel and provide legal assistance to PDIC directors, officers, employees and agents in connection with any legal proceeding in the exercise of their official functions and duties in PDIC.

The LAS continued to play a significant role in supporting the operations groups. It assisted in finalizing contracts and agreements related to the grant and implementation of financial assistance to distressed banks as well as in the review of documents related to the disposal of assets. With respect to banks under receivership and liquidation, the LAS provided guidance in the preparation of liquidation reports and projects of distributions, and filed corresponding pleadings with the liquidation courts.

The LAS also provided overall guidance and support to the Corporation through the issuance of legal opinions, as well as the preparation and review of agreements, legal studies, position papers, regulatory issuances, bulletins to member banks and contracts.

During the year, a memorandum of agreement between PDIC and BSP on the conduct of investigations on banks and the filing of cases was initiated to effectively carry out the two agencies' shared mandate of regulating the banking industry. Under the MOA, BSP and PDIC agreed to harmonize their respective administrative procedures to avoid overlapping of jurisdiction and duplication of functions in administrative investigations against banks and any of its directors, officers, employees or agents. The MOA is scheduled for signing in 2007.

Human Resource Management and Development

PDIC undertook measures to enhance personnel skills as well as to hire and retain qualified and competent employees.

In line with its mandate under the PDIC Charter, the Board approved a revised compensation plan and performance-based incentive awards. The new compensation plan is intended to help the Corporation retain and maintain its competent corps of personnel and at the same time attract qualified personnel to join the PDIC.

The Corporation likewise undertook organizational strengthening activities through the Modified Reorganized Structure and Staffing Pattern (MRSSP) designed to strengthen investigation, bank examination, backroom and legal support to operations; and expedite asset management.

This resulted in organizational realignment and streamlining of functions, change in the staffing pattern, and job evaluation of 56 positions under the MRSSP. The change in staffing pattern included an additional 50 plantilla positions, bringing the total authorized plantilla items to 773, a 7% increase in plantilla items from the 2005 reorganized set up of 723 positions. The Corporation, however, initially set the target of 615 plantilla positions or 85% of approved 723 positions. These are both below the pre-reorganization level of 1,046.

To further strengthen its human resource complement, PDIC embarked on a corporate-wide training program, balancing both technical and behavioral and managerial skills of its people. In 2006, 497 personnel, or 89% of its manpower complement availed of 96 local training courses (34 conducted in-house, and 62 external seminars) and underwent an average of 38 training hours per person. More than half or around 60% of these training programs were technical in nature, designed to improve job-related skills. Another 25% of the programs were behavioral in nature while the rest were management and leadership programs.

Personnel training is a vital part of the Corporation's human resource development program.

The Corporation gave special attention to a corporate-wide continuing skills retooling program to equip officers and staff with the capability and confidence to efficiently deliver PDIC's mandate as deposit insurer and statutory receiver. The program aimed to prepare employees for field deployment in case of multi-unit bank closures.

PDIC also sent personnel to foreign training programs. Fifteen middle and senior management officers were sent to nine regional training courses in Canada, Singapore, Thailand, Malaysia and Korea. These courses were conducted by regional and international institutions such as the Southeast Asian Central Banks (SEACEN), Financial Stability Institute (FSI), and the Toronto International Leadership Centre for Financial Sector Supervision (Toronto Centre). Topics covered included supervisory review processes, banking supervision and financial stability, Basel II implementation, banking and finance development in Asia and information technology in public administration.

Information Technology

Extending technical support to the operations groups remained an important role for the information technology group. During the year, enhancements were instituted on major systems in support of the continuing thrust for prompt start of claims settlement operations such as integration of interest rate computation feature into the Register Generation System to immediately determine amount of insured deposits and a filtering feature for deposits and loans to track encoding errors were effected. The One Claim System was enhanced with additional reportorial requirements and security and control features.

The group also continued to provide support to other areas of operations. Phase 1 of the Investment Monitoring System was operationalized during the year to support the Corporation's objective to strengthen management of financial resources. Enhancements to the data capture/conversion and reporting facility of the Bank Performance Monitoring System were completed to comply with BSP's revised reportorial requirements from banks. To mitigate the risk of server obsolescence, existing systems on personnel management, property and procurement monitoring, and documents tracking were migrated to the latest Pentium version.

In keeping with the commitment to improve efficiency in day-to-day operations, the Corporation launched the IT Support Desk to handle all IT-related problems and incidents aimed at empowering end users to perform troubleshooting problems on their own and enabling IT Services Department to quickly provide assistance to address more difficult concerns.

Finally, IT infrastructures continued to be upgraded during the year by providing Internet remote access, increasing Internet bandwidth, upgrading application servers and procuring notebook computers to address field requirements.

Meanwhile, a comprehensive five-year (2007-2011) Information System Strategic Plan was also formulated during the year to continuously update the Corporation's IT systems. The plan is expected to mitigate current risks and limitations of the systems, enhance PDIC's operations and integrate the disparate sets of technologies that address varied areas such as financial, human resource, and materials management. The plan includes the implementation of a first business analytics tool to help specific operational areas in preparing ad hoc and risk management reports.

PDIC Resource Center

The Corporation envisions the PDIC Resource Center to function both as a physical and virtual/electronic library specializing in information on deposit insurance and financial stability issues. The Resource Center continued the acquisition of various books, working papers and discussion papers on

deposit insurance, banking and financial stability published by the International Monetary Fund, the Asian Development Bank, the SEACEN Centre, the Federal Reserve Bank of Chicago, Bank for International Settlements, World Bank and European Forum of Deposit Insurers. As of yearend, it has catalogued 117 publications, 13 journals and 15 CDs on aforesaid subject matters for ready use of clients.

Administrative Services

A major accomplishment for the year was the administration and disposal of furniture, fixtures and equipment (FFEs) acquired from an assisted bank, which was undertaken by the Administrative Services Group. The FFE inventory in 16 consolidated sites all over the country amounted to a total appraised value of ₱2.7 million. Of this, FFEs aggregating ₱1.6 million in appraised value were sold at ₱2.9 million.

As a component of the corporate business continuity plan, the Corporation completed its document imaging project to achieve efficient archiving, fast retrieval and effective distribution of pertinent documents/records. The project entailed the scanning and saving of scanned images of PDIC's vital and important records in digital video discs, to serve as back-up files in case original or hard copies are lost or damaged.

In September 2006, the PDIC Board approved the construction of a building annex and the renovation of the existing eight-storey building at the main office which will be completed in three to four years. This will solve the office space constraints and finally consolidate operations.

Revisions to the policy on procurement of goods and services were approved by the Acting President in November 2006 and subsequently confirmed by the Board. The existing policy was updated to be consistent with the provisions of R.A. 9184 on government procurement and its Implementing Rules and Regulations, as well as to standardize the corporate procurement process.

ADVOCACY

A cornerstone advocacy project for the year was the PDIC-DepEd Module Development Project aimed at enhancing financial literacy among high school students.

PDIC continued to invest in initiatives that promote depositor protection, awareness, and education. The Corporation collaborated with the Department of Education (DepED) and Commission on Higher Education (CHED) for nationwide financial literacy and savings advocacy programs aimed at the youth.

The joint PDIC-DepED financial literacy education project launched in the latter part of 2005 was completed in 2006. The Corporation has formally turned over to the DepED the Teacher's Guides, which are cost efficient instructional materials for economics and values education.

The Guides are intended to integrate into the high school curriculum the value of saving as well as information on the banking system and PDIC's mandate and functions. PDIC conducted an initial orientation on the use of the Teacher's Guides in Cagayan de Oro City (Region 10) among DepED regional secondary education chiefs and assistant chiefs.

The project gained international attention when Financial Education Exchange, the learning and knowledge hub of the financial community in Asia Pacific featured it in its knowledge portal in the Internet. It was likewise included in a presentation by the Acting President during the 14th Executive Council Meeting of the International Association of Deposit Insurers (IADI) held in Kuala Lumpur, Malaysia.

To expand the project, PDIC established initial linkages with the CHED and the Philippine Council of Deans and Educators of Business to work together on college curriculum integration and enhancement.

Meanwhile, the Corporation sustained its depositor education program with the conduct of lectures on PDIC and deposit insurance awareness for college students of the University of Makati, Pamantasan ng Lungsod ng Maynila, Far Eastern University, and Our Lady of the Angels Seminary. This is a continuing program aimed at increasing awareness and educating the youth on deposit insurance and responsible banking.

Depositors Assistance Bureau (DAB)

The Corporation introduced a major innovation in its depositor assistance activities by producing an audio visual instructional material that guides depositors in filing insurance claims. Entitled *"Gabay sa Pagpa-file ng Deposit Insurance Claim,"* the video was shown during payout operations, eliciting positive feedback. The presentation is the first of its kind undertaken by an IADI member agency.

Information dissemination campaigns were also intensified at the barangay level to reach out to depositors and encourage them to file their claims for deposit insurance.

DAB staff assisting depositors during field operations.

At the home office, the DAB continued to service depositors' complaints. During the year, the Bureau received a total of 2,480 inquiries and complaints. These were referred to appropriate departments and agencies. Most of the cases concerned insurance coverage of deposits, insurance claims and complaints regarding inability of some operating banks to service withdrawals. These queries came in the form of phone calls, emails, personal visits, regular mails or through the online/electronic complaint form contained in the corporate website.

Financial Sector Forum

To further pursue consumer protection and education programs, the Corporation strengthened partnerships with other organizations. It actively participated in the Financial Sector Forum (FSF), an inter-agency organization composed of financial supervisors and regulators namely, the BSP, Securities and Exchange Commission, Insurance Commission and the PDIC. The FSF provides a voluntary mechanism for information exchange and inter-agency coordination to enhance oversight in financial supervision among financial safety net players, and to resolve supervisory gaps in the financial system.

During the year, FSF focused on projects addressing consumer protection such as the mounting of a comprehensive information campaign for overseas Filipino workers to be jointly conducted by the four (4) member agencies.

ConsumerNet

PDIC is also a member of Consumer Network (ConsumerNet), a consortium of 37 government agencies and 17 local government units (LGUs) aimed at institutionalizing networking among consumer-oriented agencies. By so doing, the consortium facilitates the flow of consumer protection information and promotes speedy resolution of consumer complaints.

PDIC participated in the 6th Consumer Trade Fair held at the SM Megatrade Hall in Mandaluyong City, where it put up a one-stop information kiosk and entertained inquiries from the public. Activities undertaken during the year also included the strengthening of consumer help desks in various government agencies and LGUs through the conduct of information update seminars and upgrading of the ConsumerNet handbook on frequently asked questions to include concerns on deposit insurance. The PDIC is a member of the technical working group that provides policy directions to the general membership of ConsumerNet.

INSTITUTIONAL RELATIONS

The Corporation mounted several institutional linkaging and relationship-building activities aimed at developing and strengthening partnerships with external stakeholders during the year.

The first major activity was the successful co-hosting with the Asian Development Bank (ADB) of the 4th International Association of Deposit Insurers (IADI) - Asia Regional Committee (ARC) Meeting and International Seminar. It was the first international conference co-hosted by PDIC in the country. Held on February 16-17, 2006 at the ADB Headquarters in Pasig City, it brought together 70 top level delegates from deposit insurers, central banks and multilateral agencies worldwide to discuss emerging issues on deposit insurance and financial stability *(See box story)*. The Switzerland-based IADI is a non-profit organization established on May 6, 2002 to promote international cooperation and guidance in the field of deposit insurance. It has 47 members, six (6) associates, four (4) observers and nine (9) partners. The PDIC is a founding member of the IADI and co-chairman of the ARC, reputed to be among the most active regional committees. The Corporation is also a member of the Executive Council, the policy-making body of the IADI. During the 5th IADI Annual General Meeting and Conference in Rio de Janeiro, Brazil, PDIC Acting President Michael A. Osmeña was elected for a three-year term as Executive Council member.

The Corporation also participated in several international conferences, meetings and seminars. These were sponsored by the IADI as well as various deposit insurance agencies and multilateral agencies such as the Federal Deposit Insurance Corporation, the Federal Reserve Bank of Chicago, the Deposit Insurance Corporation of Japan, the Korea Deposit Insurance Corporation, the Malaysia Deposit Insurance Corporation, the Financial Stability Forum, and the Asia-Pacific Economic Cooperation.

These meetings enabled IADI to provide guidance to members in improving operations and strategizing ways to bring to the fore the importance of deposit insurance in fostering financial stability. The Corporation, as a member of the IADI Research and Guidance Committee, actively contributed to the formulation and review of important policy and guidance papers in core areas of deposit insurance such as claims and recoveries, governance, mandate and funding.

In keeping with its commitment to knowledge-sharing, the Corporation hosted the training attachment of an officer from the Deposit Insurance Board of Tanzania and two (2) officers from the Deposit Protection Fund Board of Kenya on deposit insurance operations. Institutional briefings on key issues on deposit insurance were also conducted for three (3) officers from the Bank of Thailand, four (4) officers from the Deposit Insurance of Vietnam, and two (2) officers from the Korea Deposit Insurance Corporation.

As a step towards realizing its vision of global recognition as a leader in depositor protection, the PDIC, co-hosted with the Asian Development Bank (ADB), the 4th IADI-ARC Regional Meeting and International Seminar held at the ADB Headquarters, February 16-17, 2006.


"To be globally recognized as among the leaders in depositor protection."

On the local front, PDIC continued to strengthen ties with member institutions and financial regulators. It conducted a briefing for select officers of Land Bank of the Philippines. Partnerships with bank groups like the Chamber of Thrift Banks and the Rural Bankers Association of the Philippines (RBAP) were cultivated through periodic dialogues and participation in conferences of bank groups specifically those sponsored by RBAP in Bacolod City, Subic and Davao City.

During the year, PDIC signed a Memorandum of Agreement with other FSF members aimed at establishing an overall framework for the exchange of relevant reports and data. This will pave the way for the development of comprehensive statistics on the financial system which will assist their FSF member institutions in the effective discharge of their complementary mandates.

Officers of the Deposit Protection Board of Kenya pay a courtesy call to PDIC Acting President Michael A. Osmeña.

The FSF aims to provide a voluntary mechanism for information exchange and inter-agency coordination to enhance oversight in financial supervision among the players of the financial safety net; and resolve supervisory gaps.

PDIC mounts 4th IADI-ARC Meet and Seminar

The Philippine Deposit Insurance Corporation (PDIC) and the Asian Development Bank (ADB) co-hosted the 4th International Association of Deposit Insurers-Asia Regional Committee (IADI-ARC) Meeting and International Seminar on February 16-17, 2006 at the ADB Headquarters in Manila. Playing host to a total of 70 top-level representatives from deposit insurance agencies, central banks, multilateral agencies and partner financial institutions here in the country, marked another first in the history of PDIC. The activity brought PDIC closer to its vision of being globally recognized as one of the leaders in depositor protection. It also provided an opportunity for the country to showcase efforts at financial system strengthening.

The activity involved the high-level annual meeting of the ARC where strengthening of information exchange among member agencies for the enhancement of deposit insurance systems worldwide was discussed. An international seminar with the theme, *Integrating Financial Supervision and the Role of Deposit Insurers,* was likewise held.

IADI Officers listen intently to the presentation during the seminar.

The seminar provided a forum for discussions on emerging reforms and challenges in the operating environments of deposit insurance agencies such as the integration of financial supervision. Resource speakers during the seminar were Dr. Masahiro Kawai, Head, Office of Regional Economic Integration and Special Advisor to the President, ADB; Dr. Joao Santos, Research Officer, Federal Reserve Bank of New York; and Mr. Jean Pierre Sabourin, IADI Chair and Chief Executive Officer of the Perbadanan Insurans Deposit Malaysia.

Of the total number of delegates, 43 were from member-countries such as Canada, Hongkong, India, Indonesia, Japan, Jordan, Korea, Malaysia, Nigeria, the Philippines, Russian Federation, Taiwan, United States of America and Vietnam; nine (9) were associate members from the BSP, the Monetary Authority of Singapore, and the Bank of Thailand; 15 were partners from the ADB and

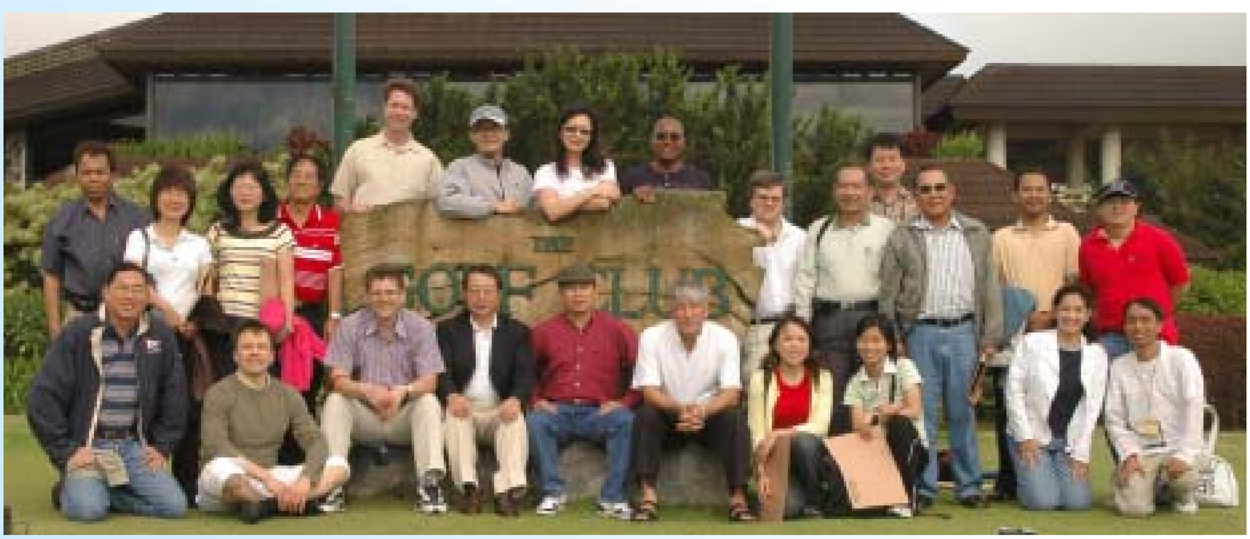
PDIC co-hosted with Asian Development Bank the 4th IADI-ARC Meeting and Seminar.

IADI delegates at the Welcome Dinner/Cultural Night.

The Welcome Dinner/Cultural Night of the 4th IADI-ARC Regional Meeting and International Seminar showcased Filipino culture.

the International Monetary Fund, while three (3) were observers representing management consultancy firm Bearing Point, Inc. and accounting firm KPMG.

Apart from linkaging with partner institutions like the ADB and the BSP, mounting the activity also called for coordination with and support from other government agencies namely, the Department of Foreign Affairs, the Philippine Tourism Authority, and the Manila International Airport Authority.



Delegates were treated to a tour of Tagaytay Highlands.

CORPORATE GOVERNANCE

The Corporation continued to strengthen internal governance by maintaining organizational arrangements that promote independence, accountability and integrity.

In 2004, the Board of Directors created two (2) committees to address critical areas of performance: the Board Audit Committee (Board AC) to provide oversight over the Corporation's internal audit function; and the Board Risk Management Committee (BRMC) to determine strategic risks that may affect the viability and survival of PDIC.

The Board AC started the review of the proposed guidelines on risk-based approach to auditing in 2006. This will provide reasonable assurance that the internal control system is updated, adequate and efficient.

In line with its role to monitor the risk management performance of the Corporation, the BRMC reviewed reports on the status and management of financial and insurance risks using identified risk indicators. It also provided a venue for the discussion of critical policy proposals before submission to the Board such as the grant of financial assistance, assessment of foreign currency deposits in dollars, trading of government securities and setting the adequate level of DIF.

The President of the Corporation, who as chief executive directs and supervises the operations and administration of the Corporation is supported by the Executive Committee (ExCom) and the Management Committee (ManCom). The Excom meets weekly to discuss recommendations affecting major corporate policy issues and other highly sensitive matters. The ManCom is convened periodically as a venue for strategy planning and consensus-building among senior officers on major corporate issues, and to communicate decisions on operational and policy issues across the Corporation.

Other major committees have been reconstituted or strengthened during the year to support Management in terms of providing recommendations to specific issues or performing projects deemed critical to corporate plans. The Policy Review Committee reviews proposals for formulation or revision of existing policies and processes of the Corporation. The Ethics Committee provides guidelines on the norms of conduct for ethical behavior of PDIC employees and deliberates cases of violation for referral to proper authorities. To enhance management and disposal of assets acquired from the exercise of its mandates, membership and functions of the following committees were amended: Corporate Assets Disposal Committee, Loan Workout Executive Committee[1], Corporate Loan Workout Committee[1], and Committee on Accreditation and Engagement of Collection Agents and Real Estate Brokers and Agents.

[1] *Spin-offs from the Loan Workout Committee created in 2003 and reconstituted in succeeding years.*

The internal audit function is being strengthened with the shift to risk-based approach. The Corporation, through its Internal Audit Group, has drafted the guidelines on the conduct of risk-based auditing with parallel efforts to provide the required training for auditors. As in previous years, internal audit focused on Operations Quality Review to evaluate the performance of operations and support units vis-à-vis specific plans and objectives for calendar year 2006, compliance with policies, standards and procedures, applicable laws and regulations, and efficient use and adequate protection of resources. Audit of payout operations involving banks that closed in 2006 as well as review of systems, administration of closed banks, and projects of distribution (PODS) of closed banks were part of the audit coverage.

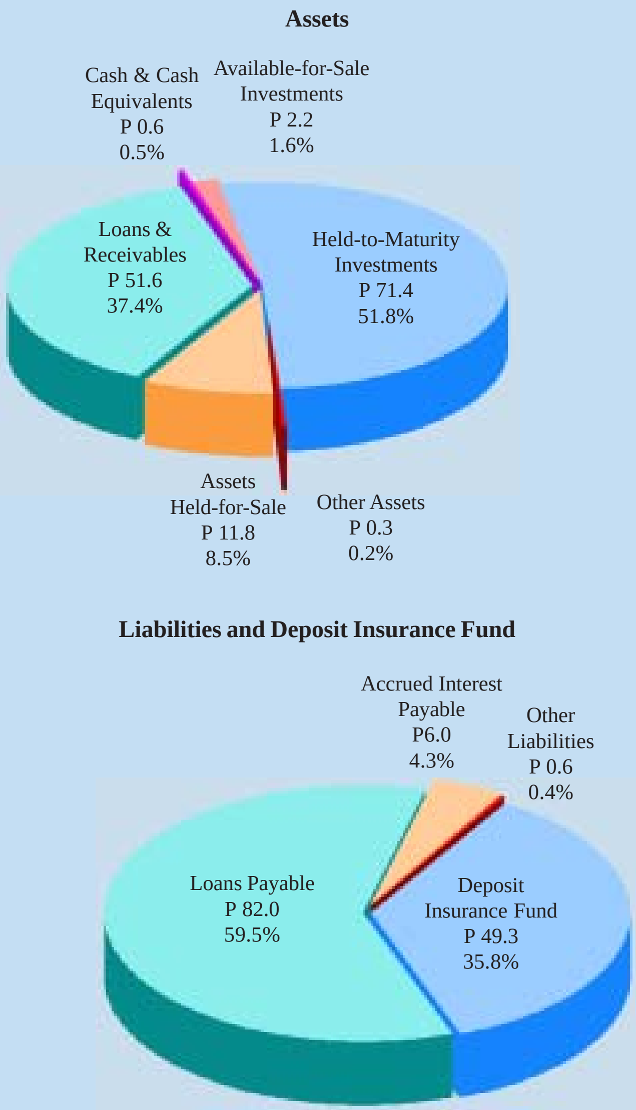
In line with the objective to preserve and strengthen the independence of PDIC actions and decisions, the Corporation undertook more concrete steps to provide legal protection to employees in the exercise of their official duties and functions. The Board approved the guidelines to operationalize Section 9(f) of R.A. 3591, as amended, which provides for the indemnification of legal expenses of PDIC officials and employees for cases brought against them in connection with the performance of their functions.

Corporate governance shall be further strengthened with plans to develop an Enterprise Risk Management and Information Security Management System for PDIC that will eventually lead to the formulation of a business continuity plan. Performance measures for corporate and individual accountabilities shall be strengthened in the new/revised performance management system of the Corporation. PDIC’s own corporate governance code is targeted for completion and submission to the Board for approval.

FINANCIAL HIGHLIGHTS 2006

Total resources of the Corporation grew by ₱11.4 billion or 9.1% in 2006 to ₱137.9 billion from ₱126.4 billion in 2005. Higher net earnings on investments, efficient collection of assessments from member banks and new borrowings from the Bangko Sentral ng Pilipinas (BSP) primarily accounted for the expansion in assets.

Assets, Liabilities and Deposit Insurance Fund
As of December 31, 2006
In Billion Pesos



Investments

Investment activities during the year centered on efforts to continuously build up the Deposit Insurance Fund (DIF). As part of its investment strategies, PDIC secured the requisites for continued participation in the primary auction of government securities, formulated trading polices, and strengthened trading lines with the government banks or designated government depository banks. PDIC likewise actively participated in bond exchanges which were managed by the Bureau of the Treasury.

The corporate funds consisting of investments in various instruments such as special savings deposits, treasury bills, fixed-rate treasury notes and bonds, and ROP global bonds expanded by ₱6.7 billion or 14.6% to ₱52.8 billion in 2006 from ₱46.1 billion in 2005 or at an annual average rate of 14.9% over the past five years. These were maintained at a proportion of 40:60 for short-term and long-term investments, respectively.

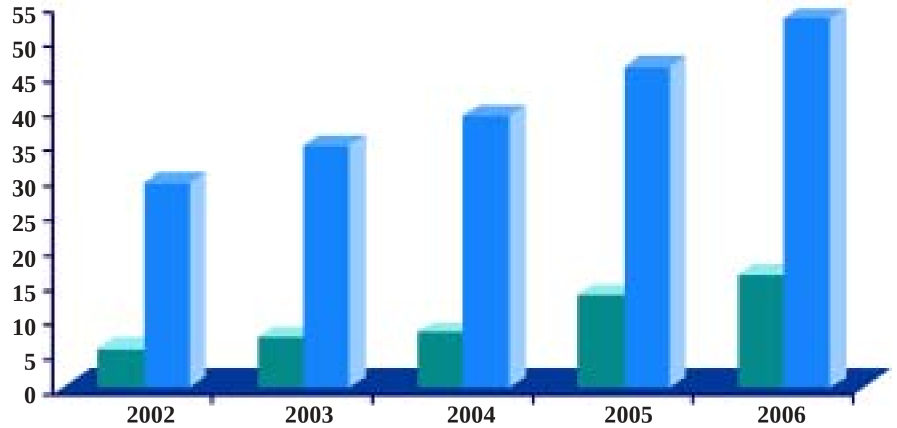
Meanwhile, six (6) Sinking Funds managed by PDIC or BSP for the payment of PDIC loans totaled ₱16.1 billion, an increase of ₱2.9 billion or 22.2%. The growth mainly resulted from fund earnings of ₱1.1 million, PDIC contributions of ₱721 million to one (1) fund representing its share in the rehabilitation cost of an assisted bank and the initial set up of ₱1.1 billion for a newly assisted bank.

Total after-tax income realized from all corporate investments amounted to ₱5.3 billion for the year while trading and exchange gains amounted to ₱50.5 million.

The funds administered by PDIC in trust for Banks under Receivership and Liquidation (BuRL) realized an income of ₱341 million for the year, which is 13.3% higher compared to ₱301 million in 2005. Total BuRL funds grew by ₱290 million or 7.0% to ₱4.5 billion over the previous year's figure of ₱4.2 billion. The BuRL funds included collections, net of disbursements for Projects of Distribution and receivership and liquidation expenses.

The implementation of the Investment Monitoring System, which started in the last quarter of the year, facilitated the efficient management and monitoring of the growing activities of the different funds. The system currently has seven (7) modules that cater to the Peso and Dollar Corporate

Investments
In Billion Pesos



Investments	2002	2003	2004	2005	2006
Regular	29.4	34.6	39.0	46.1	52.8
Sinking Funds	7.3	8.3	9.6	13.2	16.1

Funds, Managed Funds for financial assistance accounts, Provident Funds and Peso and Dollar Funds for BuRL.

Subrogated Deposits

During the year, payments for insured deposits claims reached ₱1.0 billion, of which ₱925.1 million were for 11 banks closed in 2006. Meanwhile, recovery from 10 closed banks in process of liquidation amounted to ₱5.4 million. After netting out the ₱1.4 billion additional allowances for these accounts due to poor recovery prospects from closed banks, Subrogated Claims Receivable decreased by ₱330 million or 9.0% bringing the yearend balance to ₱3.3 billion.

Loans

Loans Receivable from assisted banks registered a net increase of ₱6.6 billion or 16.7% to ₱45.8 billion at yearend from ₱39.3 billion as of 2005. A ₱9.0 billion loan was released to a commercial bank in October 2006, in accordance with a Financial Assistance Agreement that was signed in late 2005. On the other hand, PDIC collected ₱2.5 billion in liquidity and financial assistance loan payments from two (2) assisted banks.

Assets Acquired

Total assets acquired from assisted banks lodged under Assets Held-for-Sale, Investment Properties, Loans and Other Assets amounted to ₱11.8 billion, net of ₱13.1 billion allowances for probable losses as of yearend. The total amount of assets acquired is ₱4.9 billion or 29.5% lower than the balance in 2005. The decrease was primarily due to the additional provisions representing rehabilitation costs incurred in the grant of financial assistance of ₱4.3 billion, and recoveries amounting to ₱575 million through the disposal of said assets.

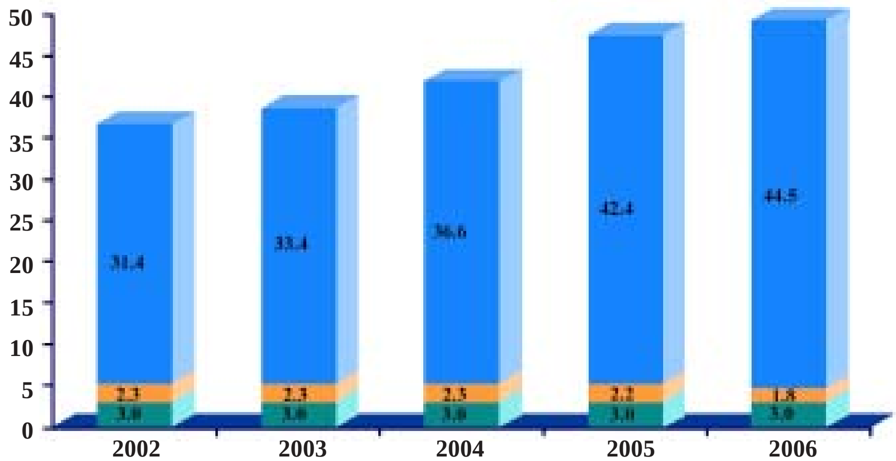
Borrowings

Borrowings of the Corporation from the BSP likewise increased by ₱8.9 billion due primarily to the new funding for rehabilitation assistance of ₱10.1 billion obtained in the fourth quarter of 2006. During the year, PDIC was able to service all amortizations due amounting to ₱1.2 billion. Total interests on PDIC borrowings incurred during the year amounted to ₱2.7 billion, which entailed cash payments of ₱707 million and accruals of ₱2.0 billion. Interests on borrowings were P202 million lower in 2006. As of yearend, accrued interest payable on all borrowings amounted to ₱6 billion as the interests on most borrowings are payable at maturity.

Tax Settlements

The matter on whether the assessments collected by PDIC from banks are subject to value added tax (VAT) is still pending resolution by the Department of Justice (DOJ). Without prejudice to the final outcome of the case, PDIC and the Bureau of Internal Revenue (BIR) entered into a Memorandum of Agreement (MOA) on March 30, 2006, which included among others, the payment of ₱1.5 billion for alleged VAT liabilities for taxable years 1996 to 2004 and payment under protest of ₱200 million starting 2005 until the DOJ finally resolves the case. In addition, PDIC made an advance payment of ₱100 million for the VAT liability for

Deposit Insurance Fund
(In Billion Pesos)



Components	2002	2003	2004	2005	2006
Estimated Insurance Losses/Reserves	31.4	33.4	36.6	42.4	44.5
Retained Earnings	2.3	2.3	2.3	2.2	1.8
Permanent Insurance Fund	3.0	3.0	3.0	3.0	3.0
Deposit Insurance Fund	36.7	38.7	41.9	47.6	49.3

2006 as provided under the MOA. The Corporation likewise settled with the BIR additional tax deficiencies for the years 2004-2005 in the amount of ₱683 million to close the tax assessments pending to date. The initial amount of ₱500 million was paid at yearend. The tax deficiencies were accordingly adjusted against retained earnings.

Income

Income from operations totaled ₱6.6 billion for 2006 which is ₱180 million or 2.8% higher than 2005. This was derived mainly from income from investments of ₱5.3 billion net of final taxes of ₱1.3 billion. This increase resulted from higher investible funds coming from assessments and loan collections and recoveries. Other income of P1.3 billion was supplied by financial assistance operations and miscellaneous sources such as gain on sale/exchange of securities, dividend/ service income from closed banks, among others.

Additions to reserves/estimated insurance losses during the year amounted to ₱2.2 billion while ₱4.6 billion was set up as additional provisions. Together with the ₱2.7 billion operating expenses, (which included VAT payments of ₱1.9 billion; compensation and benefits of ₱628.7 million; and operating expenses of ₱159 million, net of expenses allocated to receivership and liquidation operations in closed banks of ₱104 million), total chargeable expenses as provided in the Charter exceeded the ₱6.0 billion assessment collections this year by ₱3.5 billion. This amount added to interest on borrowings of ₱2.7 billion was charged to income from operations, resulting in a net income after tax of ₱445.2 million. Fifty percent (50%) of the net income or ₱222.6 million was declared and paid as dividend to the National Government based on the financial statements of the Corporation as audited by the Commission on Audit.

Deposit Insurance Fund

The DIF, PDIC's capital account, remained solid at ₱49.3 billion with an increment of ₱1.7 billion or 3.7% from the previous year's level of ₱47.6 billion. The growth is attributed to better assessment collections and higher net income.

The components of the DIF are the permanent insurance fund or equity contribution by the government of ₱3.0 billion, estimated insurance losses (reserves) of ₱44.5 billion, and retained earnings of ₱1.8 billion. The reserves for insurance losses are set aside to answer for the probable risks of failure in banks in the future if there is no potential acquirer or there is no intervention made by a third party. Additions to reserves for insurance and assistance losses amounted to only ₱2.2 billion this year compared to ₱3.6 billion in 2005. The lower additions to reserves is partly due to payments made arising from the compromise tax settlements the Corporation entered into, and the provisions it has set up for the assets it acquired from distressed banks as part of their rehabilitation.

At the current level of ₱49.3 billion, the DIF can cover 5.8% of the total estimated insured deposits in the banking system.

2006 FINANCIAL STATEMENTS

STATEMENT OF CONDITION
As of December 31, 2006
(With comparative figures for 2005)
(In Thousand Pesos)

	2006	2005	Increase/(Decrease)	
		(As Restated)	Amount	%
ASSETS				
Cash and Cash Equivalents *(Notes 2.4, 4 and 5)*	**₱ 639,549**	₱ 2,186,487	₱ (1,546,938)	-70.7%
Available-for-Sale Investments *(Notes 2.5.a, 4, 4.d and 6)*	**2,174,310**	2,174,310	-	0.0%
Held-to-Maturity Investments *(Notes 2.5.b, 4 and 7)*	**71,390,815**	60,189,636	11,201,179	18.6%
Loans and Receivables - net *(Notes 2.5.c, 4 and 8)*	**51,598,377**	44,911,259	6,687,118	14.9%
Assets Held-for-Sale - net *(Notes 2.7.a and 9)*	**11,754,711**	14,909,394	(3,154,683)	-21.2%
Investment Properties *(Notes 2.7.b and 10)*	**104,511**	-	104,511	
Property and Equipment - net *(Notes 2.8 and 11)*	**159,611**	150,268	9,343	6.2%
Intangible Assets - net *(Notes 2.9 and 12)*	**2,505**	2,433	72	3.0%
Other Assets - net *(Notes 4.o and 13)*	**63,115**	1,913,784	(1,850,669)	-96.7%
TOTAL ASSETS	**₱ 137,887,504**	₱ 126,437,571	₱ 11,449,933	9.1%
LIABILITIES AND DEPOSIT INSURANCE FUND				
LIABILITIES				
Payables *(Note 14)*	**₱ 148,555**	₱ 723,952	₱ (575,397)	-79.5%
Inter-agency Payables *(Note 15)*	**345,438**	245,211	100,227	40.9%
Accrued Interest Payable *(Note 16)*	**5,977,300**	4,708,335	1,268,965	27.0%
Loans Payable *(Note 17)*	**81,986,852**	73,092,557	8,894,295	12.2%
Unearned Income	**124,571**	102,390	22,181	21.7%
TOTAL LIABILITIES	**88,582,716**	78,872,445	9,710,271	12.3%
DEPOSIT INSURANCE FUND *(Note 2.11)*				
Permanent Insurance Fund	**3,000,000**	3,000,000	-	0.0%
Reserves for Estimated Insurance Losses	**44,529,737**	42,329,586	2,200,151	5.2%
Retained Earnings	**1,775,051**	2,235,540	(460,489)	-20.6%
TOTAL DEPOSIT INSURANCE FUND	**49,304,788**	47,565,126	1,739,662	3.7%
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND	**₱ 137,887,504**	₱ 126,437,571	₱ 11,449,933	9.1%

STATEMENT OF INCOME AND EXPENSES
For the Year Ended December 31, 2006
(With comparative figures for 2005)
(In Thousand Pesos)

	2006	2005 (As Restated)	Increase/(Decrease) Amount	%
INCOME FROM INVESTMENTS *(Notes 2.15 and 19)*	**₱ 6,622,505**	₱ 5,131,733	₱ 1,490,772	29.1%
Final Tax	**(1,308,885)**	(1,000,497)	(308,388)	30.8%
NET INCOME FROM INVESTMENTS *(Notes 2.15 and 19)*	**5,313,620**	4,131,236	1,182,384	28.6%
INCOME FROM FINANCIAL ASSISTANCE	**1,407,746**	1,830,713	(422,967)	-23.1%
OTHER INCOME/(LOSS)				
Gain on Sale/Exchange of Investments	**50,472**	-	50,472	
Dividend Income	**16,453**	83,485	(67,032)	-80.3%
Service Income	**1,380**	166	1,214	731.3%
Loss on Foreign Currency Revaluation *(Note 2.16)*	**(139,343)**	(102,678)	(36,665)	35.7%
Gain on Sale of Preferred Stocks	**-**	530,883	(530,883)	-100.0%
Miscellaneous Income	**4,905**	1,591	3,314	208.3%
TOTAL OTHER INCOME/(LOSS)	**(66,133)**	513,447	(579,580)	-112.9%
INCOME FROM OPERATIONS	**6,655,233**	6,475,396	179,837	2.8%
EXPENSES				
Interest on Borrowings *(Note 2.10 and 22)*	**(2,710,793)**	(2,912,793)	202,000	-6.9%
Expenses and Charges in Excess of Assessments *(Note 2.13)*	**(3,469,604)**	(3,219,286)	(250,318)	7.8%
TOTAL EXPENSES	**(6,180,397)**	(6,132,079)	(48,318)	0.8%
NET INCOME BEFORE TAX	**474,836**	343,317	131,519	38.3%
PROVISION FOR INCOME TAX	**(29,619)**	(36,452)	6,833	-18.7%
NET INCOME	**₱ 445,217**	₱ 306,865	₱ 138,352	45.1%

2006 FINANCIAL STATEMENTS

SCHEDULE OF ASSESSMENTS
For the year ended December 31, 2006
(With comparative figures for 2005)
(In Thousand Pesos)

	2006	2005 (As Restated)	Increase/(Decrease) Amount	%
ASSESSMENTS *(Notes 2.13 and 18)*	**₱ 6,051,217**	₱ 5,576,646	₱ 474,571	8.5%
EXPENSES AND CHARGES *(Note 2.3)*				
Operating Expenses *(Note 20)*	**(2,699,491)**	(532,279)	(2,167,212)	407.2%
Additions to Reserves (Provision for Insurance Losses) *(Note 21)*	**(2,200,000)**	(3,600,000)	1,400,000	-38.9%
Insurance and Financial Assistance Losses *(Note 3.3)*				
Provisions for Probable Losses on Financial Assistance - Acquired Assets *(Notes 3.5 and 13)*	**(3,209,400)**	(1,581,400)	(1,628,000)	102.9%
Provisions for Uncollectible Accounts - Subrogated Claims Receivable *(Notes 3.4 and 8b)*	**(1,257,637)**	(3,025,956)	1,768,319	-58.4%
Provisions for Uncollectible Accounts - Accounts Receivable Receivership and Liquidation *(Notes 3.4 and 8b)*	**(154,293)**	(56,297)	(97,996)	174.1%
Total Expenses	**(9,520,821)**	(8,795,932)	(724,889)	8.2%
EXPENSES AND CHARGES IN EXCESS OF ASSESSMENTS	**₱ (3,469,604)**	₱ (3,219,286)	₱ (250,318)	7.8%

STATEMENT OF CHANGES IN DEPOSIT INSURANCE FUND
As of December 31, 2006
(With comparative figures for 2005)
(In Thousand Pesos)

	2006	2005 (As Restated)	Increase/(Decrease) Amount	%
PERMANENT DEPOSIT INSURANCE FUND *(Note 2.12)*				
Balance at beginning/end of year	**₱ 3,000,000**	₱ 3,000,000	₱ -	0.0%
RESERVES FOR ESTIMATED INSURANCE LOSSES *(Note 2.14)*				
Balance at beginning of year	**42,329,586**	36,578,209	5,751,377	15.7%
Additions/deductions	**2,200,151**	5,751,377	(3,551,226)	-61.7%
Balance at end of year	**44,529,737**	42,329,586	2,200,151	5.2%
RETAINED EARNINGS				
Balance at beginning of year	**2,235,540**	2,034,607	200,933	9.9%
Correction of prior year's errors *(Note 24)*	**(683,098)**	95,001	(778,099)	-819.0%
Net income for the year	**445,217**	211,864	233,353	110.1%
Dividends to the National Government	**(222,608)**	(105,932)	(116,676)	110.1%
Balance at end of year	**1,775,051**	2,235,540	(460,489)	-20.6%
DEPOSIT INSURANCE FUND *(Note 2.11)*	**₱ 49,304,788**	₱ 47,565,126	₱ 1,739,662	3.7%

2006 FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2006
(With Comparative Figures for 2005)
(In Thousand Pesos)

	2006	2005 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from investments	₱ 5,045,799	₱ 3,903,854
Collections of loans and assets held for sale	3,099,646	7,252,645
Income from financial assistance	1,443,323	1,276,485
Collections of various receivables	21,106	3,892
Dividend, service and miscellaneous income	7,992	79,810
Collections of subrogated claims receivable	5,155	64,324
Collections from banks under receivership/liquidation	4,633	47,652
Deposit in Escrow Account	-	(339,768)
Extension of loans to banks	(9,000,000)	(4,420,000)
Payment of VAT for 1996 to 2004	(1,500,000)	-
Payment of interest on borrowings	(1,244,617)	(1,686,871)
Payment of insured deposits	(1,037,526)	(1,229,781)
Maintenance and other operating expenses	(805,248)	(589,628)
Payment of assessed tax deficiencies for 2004 and 2005	(500,000)	-
Payment of various payables	(328,578)	(1,562,187)
Payment of VAT for 2005 and 2006	(300,000)	-
Remittance to Bangko Sentral ng Pilipinas re: CFIEP	(2,225)	-
Expenses incurred for receivership and liquidation	(1,632)	(7,118)
Net cash provided by/(used) in operating activities	(5,092,172)	2,793,309
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from matured investments	38,283,322	38,132,636
Placement in various investments	(49,351,573)	(43,529,629)
Cost of purchased property and equipment	(25,611)	(4,869)
Proceeds from sale of preferred stocks	-	6,163,590
Net cash provided by/(used) in investing activities	(11,093,862)	761,728
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from BSP	10,100,000	-
Assessment collections	6,050,743	5,578,546
Payment of loans to BSP	(1,205,398)	(7,624,622)
Advance payment of dividend for 2006	(200,000)	-
Payment of dividends to the National Government for 2005	(105,932)	(101,093)
Net cash provided by/(used) in financing activities	14,639,413	(2,147,169)
Effect of foreign currency valuation	(317)	755
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,546,938)	1,408,623
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,186,487	777,864
CASH AND CASH EQUIVALENTS AT END OF YEAR *(Note 5)*	₱ 639,549	₱ 2,186,487

NOTES TO 2006 FINANCIAL STATEMENTS

(Amounts in Thousand Pesos)

1. GENERAL INFORMATION

The **Philippine Deposit Insurance Corporation (PDIC)** is a government corporation established with the passage of Republic Act No. 3591, as amended on June 22, 1963. The Corporation shall, as a basic policy, promote and safeguard the interests of the depositing public by way of providing permanent and continuing insurance coverage on all insured deposits. PDIC is mandated by law to act as receiver/liquidator of closed banks and co-regulator of banks, in which it collaborates with the BSP in promoting stability in the banking system and the economy as a whole.

The PDIC Charter was amended through Republic Act 9302 on August 12, 2004. This armed PDIC to provide heightened depositor protection through the increase in the maximum deposit insurance coverage (MDIC) to P250,000; restoration of PDIC's authority to examine banks with prior approval by the Monetary Board; grant of financial assistance to distressed banks under systemic risk considerations; authority to investigate banks on frauds, irregularities and anomalies based on complaints received and reports of bank examinations; and the enhancement of PDIC's receivership and liquidation authority.

The Corporation's principal office is located at 2228 Chino Roces Avenue, Makati City, with extension office at the SSS Building, Ayala Avenue corner V.A. Rufino Street, Makati City.

The financial statements have been approved and authorized for issuance by the Board of Directors on March 19, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Financial Statement Preparation

The PDIC financial statements pertaining to the financial position, results of operations, changes in equity and cash flows as of and for the year ending December 31,2006 are prepared in accordance with the PDIC Charter and presented in conformity with accounting principles generally accepted in the Philippines including Philippine Financial Reporting Standards (PFRS) / Philippine Accounting Standards (PAS). References to the preparation of these statements should be viewed with this qualification and related disclosures.

The financial statements presented herewith have been prepared under the historical cost basis.

The adoption of the applicable PAS / PFRS has resulted in some changes in the Corporation's accounting policies for CY 2006 and these were applied to the balances reported in its Statement of Condition, Statement of Income and Expenses, Statement of Cash Flows and Statement of Changes in Deposit Insurance Fund, as of and for the year ending December 31, 2006. To provide comparability of presentation, the CY 2005 balances for material items have been restated using the same accounting policies adopted for CY 2006.

The preparation of the Corporation's financial statements in conformity with the Charter and some PFRS/PAS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in applying the accounting policies as disclosed in Note 3.

The Corporation, as Receiver/Liquidator is responsible for managing and disposing the assets of closed banks in an orderly and efficient manner. The transactions related to receivership and liquidation are accounted for separately from the assets and liabilities of the Corporation to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receivership/liquidation are accounted for as transactions of the closed banks, and expenses are billed by the Corporation against the respective closed banks.

2.2 Changes in Accounting Policies

Compliance with Philippine Accounting Standards (PASs) and Philippine Financial Reporting Standards (PFRSs)

Starting the year 2006, PDIC adopted the following Philippine Accounting Standards (PASs) and Philippine Financial Reporting Standards (PFRSs), which are relevant to its operations:

PAS 1 Presentation of Financial Statements
PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
PAS 16 Property, Plant and Equipment
PAS 17 Leases
PAS 19 Employee Benefits
PAS 24 Related Party Disclosures
PAS 32 Financial Instruments: Disclosures and Presentation
PAS 36 Impairment of Assets
PAS 37 Provisions, Contingent Liabilities and Contingent Assets

PAS 38 Intangible Assets
PAS 39 Financial Instruments: Recognition and Measurement
PAS 40 Investment Property
PFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Except for PAS 32, 36, and 39, the adoption of the above revised PAS did not result in substantial changes to the Corporation's accounting policies.

The Corporation has applied PAS 10, 18, 21, and 23 on events after Balance Sheet Date, Revenue and Borrowing Costs, respectively, in 2005.

2.3 Charter Provisions

Pursuant to Section 13 of R.A. 3591, as amended by R.A. 9302 effective August 12, 2004, assessment collections are booked to Assessment Fund account as a component of the Deposit Insurance Fund (DIF), the Corporation's capital account. Expenses and charges enumerated in Section 6 (d) of the Charter are charged against assessment collections, and the expenses and charges in excess of assessments, are charged against income from operations. Such expenses and charges are:

i. Operating costs and expenses of the Corporation for the calendar year;
ii. Additions to reserve to provide for insurance and financial assistance losses; and
iii. Net insurance and financial assistance losses sustained in said calendar year.

2.4 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and in banks, working funds, demand deposits, and placement with banks, due from BSP, together with short-term, highly liquid investments that are readily convertible to cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

2.5 Financial Assets

The Corporation has classified its financial assets in the following categories: available for sale (AFS) investments; held-to-maturity (HTM) investments; and loans and receivables. At year-end, all investments of the Corporation are classified as HTM. Beginning January 2, 2007, management shall designate its AFS investments after which classification of investments shall be done at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs in the case of investments not measured at fair value through profit or loss.

Acquisition and disposal of financial assets are recognized on the transaction date – the date on which the Corporation commits to acquire or dispose the asset. Loans and receivables are recognized when cash is advanced for direct loans and expenses for receivership and liquidation and other similar transactions.

a. Available-for-Sale Investments (AFS)

Available for sale investments are non-derivative financial assets that are designated as AFS or those securities that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition, AFS financial assets are measured at fair value with gains and losses being recognized as a separate component of capital funds until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in capital funds should be recognized in the statements of income. Dividends on AFS equity instruments shall be recognized in the statements of income when the entity's right to receive payment is established.

b. Held-to-Maturity Investments (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity. These investments are carried at amortized cost using the effective interest rate method (recoverable amount), less impairment in value. Gains and losses are recognized in income statement when the HTM are derecognized and impaired, as well as through the amortization process.

c. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are carried at original amounts less allowance for impairment established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value, as appropriate, of the expected cash flows.

Subrogated Claims Receivable – The Corporation, upon payment of any depositor is subrogated to all rights of the depositor against the closed bank to the extent of such payment. Such subrogation shall include the right on the part of the Corporation to receive the same dividends and payments from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to the depositor on a claim for the insured deposits but, such depositor shall retain his claim for any uninsured portion of his deposit.

2.6 *Impairment of Assets*

Assets are impaired if carrying amount exceeds the amount to be recovered through use or sale of the asset. An assessment is made at each statement of condition date whether there is objective evidence that a specific financial or non-financial asset may be impaired. If such evidence exists, impairment loss is recognized in the statement of income.

a. Impairment of Financial Assets

Impairment is determined as follows:

1. For assets carried at amortized cost, impairment is measured as the difference between the asset's carrying amount and the present value of estimated cash flow, as appropriate, discounted at the original Effective Interest Rate.

2. For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized on the financial asset. Impairment losses recognized in the statements of income on equity instruments are not reversed through the statement of income. If, in subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment is reversed through the statements of income.

3. For assets carried at cost, impairment is measured as the difference between the carrying amount and the present value of estimated future cash flow, discounted, as appropriate, at the current market rate of return for a similar financial asset.

b. Impairment in Non-Financial Assets

Where an indicator of impairment exists, the Corporation makes a formal estimate of recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

c. Derecognition of Financial Instruments

1. Financial Asset

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

a. The rights to receive cash flows from the asset have expired;

b. The Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

c. The Corporation has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Corporation's continuing involvement in the asset.

2. Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

NOTES TO 2006 FINANCIAL STATEMENTS

2.7 *Assets Held-for-Sale and Investment Properties*

Assets Held for Sale and Investment properties include Real and Other Properties Acquired (ROPA) in settlement of loans and receivables from financially assisted and closed banks.

a. *Assets Held-for-Sale*

Assets held for sale or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. This includes ROPA that are available for sale.

b. *Investment Properties*

Investment properties include ROPA in settlement of loans and receivables from banks. Investment properties are recorded at cost or fair value at acquisition date and subsequently carried at cost less accumulated depreciation and impairment in value. These are held to earn rentals or for capital appreciation or both. Transaction costs including refundable taxes such as capital gains tax and documentary stamp tax that were paid by the Corporation are capitalized as part of cost. Depreciation is computed using the straight-line method over the estimated life of the asset.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged against current operation in the period in which cost are incurred.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on retirement or disposal of an investment property are recognized in the statements of income in the year of retirement or disposal.

2.8 *Property and Equipment (Tangible Fixed Assets)*

The Corporation's depreciable properties, excluding buildings, are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred. When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statements of income.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. (Cost less residual value over useful life).

Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful life of the respective asset follows:

Land	
Building	30 years
Transportation Equipment	7 years
Information Technology (Integral Part) and Computer Equipment	5 years
Books	10 years
Furniture, Fixtures and Equipment	3 years
Leasehold Improvements	3 years

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statements of income.

2.9 *Intangible Assets*

Intangible assets are stated in the financial statements at cost less accumulated amortization and any impairment in value. They comprise of software licenses, among others.

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The Corporation has adopted the straight-line amortization method for the intangible assets over five years. The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Impairment losses are then included in the income statement.

2.10 Borrowing Costs

Borrowing costs are recognized as expense in the year in which these costs are incurred.

2.11 Deposit Insurance Fund

The Deposit Insurance Fund (DIF) is the capital account of the Corporation and shall principally consist of the following: (i) the Permanent Insurance Fund; (ii) assessment collections, subject to the charges enumerated in Section 6 (d) of the PDIC Charter (refer to 2.3); (iii) reserve for insurance and financial assistance losses; and (iv) retained earnings.

Starting year-end 2003, a study recommended setting a target level of the DIF (reserve) based on direct threat and potential demand on the Corporation's capital, otherwise known as Target Fund approach. This amount reflects the best estimate as to adequacy of reserves against risks in the banking system as of a given date and reviewable every two years. This is currently set at P90 billion.

2.12 Permanent Insurance Fund

This is the total capital provided by the National Government by virtue of R.A. 3591, as amended. The full capitalization was reached in 1994 with the conversion to equity of the National Government of the P977.80 million obligation of PDIC to the then Central Bank of the Philippines.

2.13 Assessments

Member banks are assessed a maximum rate of one-fifth (1/5) of one percent (1%) per annum of the assessment base, which is the amount of liability of the bank for deposits as defined under subsection f of Section 4 of the Charter. This shall in no case be less than five thousand pesos (P5,000.00) and collected on a semestral basis. The amount of assessment is based on the average of deposit liabilities as of the end of March and June for the first semester and as of the end of September and December for the second semester. Such assessments are payable by banks not later than July 31 of the current year and January 31 of the ensuing year for the first and second semesters, respectively. Failure or refusal by any member bank to pay any assessment due allows the Corporation to file a collection case against the bank and impose administrative sanctions against its officers who are responsible for non-payment. Late payment of assessment is likewise subject to interest and penalty.

2.14 Insurance Reserves

PDIC records an estimated loss for banks not yet closed but identified through a monitoring process as likely to fail in the future unless intervention from third party is made, such as the grant of financial assistance as part of financial rehabilitation. This probability of closure is the basis in determining the existence of a loss contingency that triggers loss recognition. The insurance reserve is recorded in the books as Estimated Insurance Losses.

2.15 Income Recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the income can be reliably measured, except as otherwise provided in the PDIC Charter.

a. Investment Income

Interest on interest-bearing placements and securities are recognized as the interest accrues, taking into account the effective yield on such assets. This includes gain and losses from fair value measurements, if any.

b. Interest Income

Interest on loans is recognized mainly based on accrual accounting using the rates fixed for said loan.

2.16 Dollar Denominated Assets

Dollar denominated assets are initially carried at the equivalent value using BSP reference rate at transaction date and revalued at the end of each month.

NOTES TO 2006 FINANCIAL STATEMENTS

2.17 *Employee Benefits*

a. *Provident Fund*

In accordance with Section 8 (11) of the Charter, the Corporation has a Provident Fund, which is a defined contribution plan, divided into general fund and housing fund, consisting of contributions made both by its officers and employees and the Corporation. Corporate contribution is vested to the employee after completing a year of service in the Corporation. The affairs and business of the fund are administered by its Board of Trustees.

b. *Retirement*

GSIS retirement benefits under R.A. 8291 are available to qualified employees who are at least sixty (60) years at the time of retirement with at least 15 years of service. RA 8291 likewise provides for separation benefits.

c. *Terminal Leave Pay*

This represents the cash value of the accumulated vacation and sick leave credits of employees, 50 percent of which can be monetized.

2.18 *Leases*

Leases where the lessor substantially retains all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense/income in the statements of income on a straight-line basis over the lease term.

2.19 *Financial Assistance to Banks*

PDIC may grant financial assistance to a distressed member bank for its rehabilitation to prevent closure, provided such assistance is the least costly alternative. In applying the Optimal Cost Resolution (OCR) principle, the alternative chosen must not cost more than the insured deposits at the time of rehabilitation. This financial assistance may be in the form of a direct loan, purchase of assets, assumption of liabilities or placements of deposits and preferred or quasi-equity in the bank.

2.20 *Financial Risk Management*

Financial Risk Factors

The Corporation is exposed to a variety of financial risks such as market risk (including currency risk and interest rate risk), credit risk, and liquidity risk.

The financial risks are identified, measured and monitored to assess adequately the market circumstances to avoid adverse financial consequences to the Corporation.

a. *Market Risk*

The Corporation measures and manages its rate sensitivity position to ensure its long-run earning power and build-up of its investment portfolio. Special emphasis is placed on the change in net interest income that will result from possible fluctuations in interest rates, changes in portfolio mix and tenor as well as the effects of foreign exchange rate fluctuations on its foreign currency denominated investments.

b. *Credit Risk*

In view of its mandate to safeguard the interest of the depositing public and contribute in the promotion of stability in the economy, credit risk to the Corporation is the risk that the loans granted to operating banks needing financial assistance and advances in its receivership and liquidation activities will not be paid or collected when due.

Therefore, PDIC exercises prudence in the grant of financial assistance and over its exposures to credit risk. This is managed through periodic examination of assisted banks and monitoring of the covenants in the loan agreements. The Corporation likewise mitigates such risk through the provision of secondary source of payment (collateral).

The Corporation is allowed to invest only in obligations of the Republic of the Philippines (ROP) or in obligations guaranteed as to principal and interest by the ROP.

c. *Liquidity Risk*

The liquidity risk is the adverse situation when the Corporation encounters difficulty in meeting unconditionally the settlement of insurance calls and all its obligations within their maturity. The liquidity management policy of the Corporation is conservative in maintaining optimal liquid cash funds to secure a good capability to finance its activities and other operational requirements. Due to the mandates of the Corporation, it is authorized to borrow from the BSP for insurance and financial assistance purposes.

3. USE OF JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with the PDIC Charter and PAS/PFRS requires the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties, including:

- The timing and extent of losses the Corporation incurs as a result of future failures of member banks;
- The extent to which the Corporation will pay insurance claims of depositors of member banks that are closed or extend financial assistance to banks in danger of closing;
- The ability to recover its claims receivable and advances based on the trends and expectations of the liquidation of the closed banks;
- The extent to which the Corporation can maximize the sale and recoveries from the assets it acquires as a way of rehabilitating banks; and
- The probability of recovery through successful lawsuits as appropriate against relevant parties.

3.1 Impairment of AFS Financial Assets

The Corporation determines that AFS investments are impaired when there has been a significant or prolonged decline in the fair value below its cost, considering the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

3.2 Impairment of HTM Financial Assets

The Corporation classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, the Corporation evaluates its intention and ability to hold such investments to maturity. If the Corporation fails to keep these investments to maturity other than in certain specific circumstances, it will be required to reclassify the entire portfolio to AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

3.3 Impairment Losses of Loans and Receivables

The Corporation reviews its loans and receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of income, the Corporation makes judgments as to whether there is any observable development and information indicating that there is a measurable decrease in the estimated future cash flows from the loans and receivables.

3.4 Impairment of Subrogated Claims Receivable / Accounts Receivable-Receivership and Liquidation

The Corporation reviews its Subrogated Claims Receivable (SCR) account, representing payments made by PDIC on deposit insurance claims, to determine whether an impairment loss should be recorded based on the probability of non-recovery of such exposure upon liquidation of closed banks. Since 2003, this has been computed taking into consideration the closed banks' respective Estimated Realizable Value of Assets (ERVA).

Moreover, Accounts Receivable – Receivership and Liquidation account, consisting of expenses incurred by the Corporation for its receivership and liquidation functions charged against closed banks is reviewed to determine whether an impairment loss should be recorded on the same basis as the SCR.

3.5 Impairment of Assets Held for Sale and Investment Properties

The Corporation assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Corporation recognizes an impairment loss whenever the carrying amount of an asset exceeds the recoverable amount. However, the impairment loss booked is based on a 3-year programmed schedule starting 2006.

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3.6 *Estimated Useful Lives of Property and Equipment*

The Corporation uses the prescribed estimated useful lives of Property and Equipment and depreciable investment properties by the Commission on Audit (COA).

3.7 *Contingencies*

There are pending cases where the Corporation is impleaded as party defendant. The estimate of possible adverse judgments of these cases is based on the assessment of the strength of the defense of the Corporation or advisability of a compromise. The Corporation is of the opinion that these legal cases will not have a material adverse effect on its financial position. It is possible, however, there may be material changes in the estimates based on developments or events in the future.

4. TRANSITION TO PFRS

The adoption of the PAS/PFRS mentioned in 2.2 involved changes in accounting policies and the Corporation has accordingly restated the comparative financial statements retroactively in accordance with the transitional provisions of these accounting standards. The tables and related notes below provide the reconciliation of financial position as of December 31, 2006 and 2005:

		December 31, 2006			December 31, 2005		
		Previous GAAP	Effect of Transition to PFRS	PFRS	Previous GAAP	Effect of Transition to PFRS	PFRS
ASSETS							
Cash and Cash Equivalents	a	31,976	607,573	639,549	29,210	2,157,277	2,186,487
Short-Term Investments	b	21,209,574	(21,209,574)	-	11,452,078	(11,452,078)	-
Long-Term Investments	c	49,907,021	(49,907,021)	-	50,013,387	(50,013,387)	-
Available for Sale Investments	d	0	2,174,310	2,174,310	0	2,174,310	2,174,310
Held-to-Maturity Investments	e	0	71,390,815	71,390,815	0	60,189,636	60,189,636
Loans and Receivables	f	1,483,127	50,115,250	51,598,377	1,415,388	43,495,871	44,911,259
Financial Assistance-net	g	60,661,785	(60,661,785)	-	59,018,222	(59,018,222)	-
Assets Held for Sale	h	0	11,754,711	11,754,711	0	14,909,394	14,909,394
Subrogated Claims-net	i	3,327,953	(3,327,953)	-	3,658,296	(3,658,296)	-
Investment Property	j	0	104,511	104,511	0	0	-
Property and Equipment	k	162,116	(2,505)	159,611	152,700	(2,433)	150,268
Intangible Assets	l	0	2,505	2,505	0	2,433	2,433
Inventories	m	2,278	(2,278)	-	2,441	(2,441)	-
Prepaid Expenses	n	16,555	(16,555)	-	14,615	(14,615)	-
Other Assets	o	1,085,119	(1,022,004)	63,115	681,233	1,232,551	1,913,784
TOTAL ASSETS		**137,087,504**	-	**137,887,504**	**126,437,570**		**126,437,571**
LIABILITIES AND DIF							
Payables		148,555	-	148,555	723,952	-	723,952
Inter-Agency Payables		345,438	-	345,438	245,211	-	245,211
Accrued Interest Payable		5,977,300	-	5,977,300	4,708,334	-	4,708,335
Loans Payable		81,986,852	-	81,986,852	73,092,557	-	73,092,557
Unearned Income		124,571	-	124,571	102,390	-	102,390
		88,582,716	-	88,582,716	78,872,444		78,872,445
Deposit Insurance Fund		49,304,788	-	49,304,788	47,565,126		47,565,126
TOTAL LIABILITIES AND DIF		**137,887,504**	-	**137,887,504**	**126,437,570**	-	**126,437,571**

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a. The adjustment on Cash and Cash Equivalents account follows:

	2006	2005
Reclassification of short-term investments maturing within 3 months from the date of acquisition	**607,573**	**2,157,277**

b. The adjustments on Short-term Investments account represent the following:

	2006	2005
Reclassification of the Short-term Investments to the following:		
Cash and Cash Equivalents	(607,573)	(2,157,277)
Held-to-Maturity Investments		
Special Savings Deposit	(2,110,296)	(288,557)
Time Deposit dollars	(308,246)	(138,470)
Treasury Bills	(3,023,908)	(4,206,962)
Treasury Notes	(9,647,541)	(2,588,194)
Investment in Bonds	(5,512,010)	(2,072,618)
	(20,602,001)	(9,294,801)
	(21,209,574)	**(11,452,078)**

c. The net decrease in Long-term Investments account is due to the following:

	2006	2005
Reclassification of the following to Held-to-Maturity Investments:		
Treasury Notes	(18,032,395)	(21,030,386)
Investment in Bonds	(13,552,437)	(13,592,763)
Sinking Fund	(16,147,879)	(13,215,928)
Reclassification of PNB Preferred Shares to Available-for-Sale Investments	(2,174,310)	(2,174,310)
	(49,907,021)	**(50,013,387)**

d. The increase in Available-for-Sale Investments of P 2.17 billion for 2006 and 2005 as mentioned was due to reclassification of Investment in PNB Preferred Stocks to Available-for-Sale Investments.

e. The increase in Held-to-Maturity Investments account is due to reclassification of the following:

	2006	2005
Reclassification from Short-term Investments	2,110,296	288,557
Special Savings Deposit	308,246	138,470
Time Deposit dollars	3,023,908	4,206,962
Treasury Bills	9,647,541	2,588,194
Treasury Notes	5,512,010	2,072,618
Investment in Bonds	20,602,001	9,294,801
Reclassification from Long-term Investments	18,032,395	21,030,386
Treasury Notes	13,552,437	13,592,763
Investment in Bonds	16,147,879	13,215,928
Sinking Funds	47,732,711	47,839,077
	345	-
Reclassification from Other Assets	3,055,758	3,055,758
Reclassification from Financial Assistance	**71,390,815**	**60,189,636**

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f. The adjustments on Loans and Receivables account consist of the following:

	2006	2005
Aggregation of Financial Assistance to Loans and Receivables	45,834,826	39,274,826
Aggregation of Subrogated Claims Receivables to Loans and Receivables	3,327,953	3,658,296
Reclassification of the following Other Assets to Loans and Receivables:		
AR-Receivership and Liquidation-net	724,366	281,673
Other receivables:	-	-
Financial Assistance-Closed banks-net	24,731	24,731
Assessment deficiencies	122	27
Receivables-others-net	203,252	218,817
Advances to National Government	-	37,501
	50,115,250	**43,495,871**

g. The deletion of Financial Assistance account was due to reclassification to the following accounts:

	2006	2005
Held-to-Maturity Investments	(3,055,758)	(3,055,758)
Loans and Receivables	(45,834,826)	(39,274,826)
Assets Held for Sale	(11,666,690)	(14,839,646)
Investment Properties	(104,511)	-
Other Assets	-	(1,847,992)
	(60,661,785)	**(59,018,222)**

h. The increase in Assets Held for Sale account is as follows:

	2006	2005
Reclassification from Financial Assistance - Acquired Assets	11,666,690	14,839,646
Reclassification of Other Assets to Assets Held for Sale	87,606	69,748
Reclassification of paintings under Other Assets	415	-
	11,754,711	**14,909,394**

i. The decrease in Subrogated Claims Receivables account of P3.33 billion in 2006 and P3.66 billion in 2005 was due to aggregation of the account to loans and receivables.

j. The increase in Investment Property account of P104.51 million in 2006 was due to reclassification from Financial Assistance – Acquired Assets. These are being leased by third parties from the Corporation.

k. The net decrease in Property and Equipment account of P2.51 million in 2006 and P2.43 million in 2005 was due to the recognition of computer software in the Intangible Assets account.

l. The increase in Intangible Assets account was due to reclassification of computer software of P2.51 million in 2006 and P2.43 million in 2005.

m. The decrease in Inventories of P2.28 million in 2006 and P2.44 million in 2005 was due to reclassification to Other Assets account.

n. The decrease in Prepaid Expenses of P16.56 million in 2006 and P14.62 million in 2005 was due to reclassification to Other Assets account.

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o. The net decrease in Other Assets account represent the following:

	2006	2005
Reclassification of the following Inventories to Other Assets:		
Office Supplies and Materials	1,905	1,967
Inventories Decals and standees	373	474
Aggregation of Prepaid Expenses	16,555	14,615
Reclassification from Financial Assistance - Acquired Assets	-	1,847,992
Reclassification of the following Other Assets to Receivables:		
AR-Receivership and Liquidation-net	(724,366)	(281,673)
Receivables Assigned	(6,500)	-
Advances to National Government	-	(37,501)
Other receivables:		
Financial Assistance-Closed Banks	(24,731)	(24,732)
Assessment Deficiencies	(122)	(26)
Receivables-others	(203,251)	(218,817)
Reclassification to Assets Held for Sale	(81,106)	(69,748)
Reclassification of paintings to Assets Held for Sale	(415)	-
Reclassification of Bonds and Sinking Funds to Held-to-Maturity Investments	(346)	-
	(1,022,004)	**1,232,551**

5. CASH AND CASH EQUIVALENTS

This account includes the following:

	2006	2005
Cash on Hand a/	14,764	352
Cash in Bank b/	17,212	28,858
Short-term Investments c/	607,573	2,157,277
	639,549	**2,186,487**

a. The balance includes checks and other cash items received at the close of office hours on the last business day of the year.

b. The account consists of the balances of the following:

	2006	2005
Corporate Operating Funds	4,358	6,782
Account used for Collection	3,279	3,444
Petty Cash Fund/Emergency Drawing Funds	850	491
CIB-Emergency Drawing Fund	831	908
Funds for Direct Pay-out	7,835	9,919
Funds for Pay-out through Transferee Bank	-	6,331
Due from BSP	59	983
	17,212	**28,858**

c. This account refers to the investments which will mature within 3 months from the date of acquisition.

6. AVAILABLE- FOR- SALE INVESMENTS

This consists of investment in preferred shares of ₱2.17 billion in 2006 and 2005 issued by an expanded commercial bank to the Corporation by way of debt-to- equity conversion relative to its rehabilitation program.

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7. HELD-TO-MATURITY INVESTMENTS

This consists of investments in peso and dollar-denominated treasury notes and bonds, and sinking funds, as follows:

	2006	2005
Special Savings and Time Deposits	2,418,542	427,027
Investments in Treasury Bills	3,023,908	4,206,962
Investment in Treasury Notes	27,679,936	21,030,386
Investments in Treasury Bonds	22,120,550	21,309,333
Investments in Sinking Funds a/	11,108,429	8,147,715
BSP Managed Funds a/	5,039,450	5,068,213
	71,390,815	**60,189,636**

a. Funds accumulated by the Corporation or being managed by BSP for the payment of PDIC loans.

8. LOANS AND RECEIVABLES - NET

The following receivables are classified into this account as follows:

	2006	2005
Loans a/	45,834,825	39,274,825
Receivables -Closed Banks, net b/	1,481,565	3,966,959
Interest Receivables c/	4,077,051	1,409,846
Advances to National Government d/	-	37,501
Advances to Officers and Employees, net e/	624	1,657
Other Receivables f/	204,312	220,471
	51,598,377	**44,911,259**

a. Loans

This represents financial assistance by way of 1) interest bearing direct loans and liquidity assistance as extended to 6 commercial banks, 1 thrift bank, 1 rural bank amounting to P37.53 billion 2) non-interest bearing notes amounting to P0.38 billion representing swap between BSP's receivable from various rural banks and PDIC's subrogated claims for the implementation of the Countryside Financial Institution Enhancement Program (CFIEP) 3) assets acquired by PDIC arising from financial assistance amounting to P7.92 billion.

All financial assistance extended to banks are approved by the PDIC Board and the Monetary Board.

b. Receivables-closed banks, net, includes the following:

	2006	2005
Subrogated Claims b.1/	13,991,992	12,959,400
Subrogated Claims Assigned	(384,179)	(386,404)
Allowance for Probable Losses	(10,279,860)	(8,914,700)
	3,327,953	3,658,296
AR-Receivership and Liquidation b.2/	831,683	711,816
Allowance for Probable Losses	(107,317)	(427,885)
	724,366	283,931
Financial Assistance-Closed Banks b.3/	162,828	162,828
Allowance for Probable Losses	(138,096)	(138,096)
	24,732	24,732
	4,077,051	**3,966,959**

NOTES TO 2006 FINANCIAL STATEMENTS

1. Subrogated Claims Receivable

   This is the balance of amount paid by PDIC to insured depositors of closed banks recoverable from the remaining assets of these banks upon liquidation. In the year 2006, additions to this account amounted to P 1.03 billion mainly pertaining to eleven (11) banks which were closed, with total deposit liabilities of P925.13 million consisting of 17,924 accounts. On the other hand, the Subrogated Claims Receivable-Assigned account represents the amount of subrogated claims assigned to BSP in exchange for non-negotiable PNs receivable from banks that availed themselves of the Countryside Financial Institution Enhancement Program administered jointly by PDIC, Land Bank of the Philippines (LBP) and BSP. Non-interest bearing notes of various rural banks thru LBP is due at the end of seven years from the date of asset swap and collection thereon will be used to redeem the subrogated claims assigned to BSP.

2. Accounts Receivable – Receivership and Liquidation

   Expenses advanced by the Corporation necessary in carrying out its mandate as receiver and liquidator of closed banks. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment.

3. Financial Assistance – Closed Banks

   This represents, financial assistance by way of interest bearing direct loans and liquidity assistance to banks that eventually closed.

c. Interest Receivables

	2006	2005
Held-to-Maturity Investments	1,129,336	1,020,808
Financial assistance	352,229	389,038
	1,481,565	1,409,846

d. Advance payment of taxes to the National Government/BIR to be applied against future taxes due.

e. These are cash advances of officers and staff for approved travel assignments.

f. All other receivables including assessment deficiencies of member banks and those subsequently closed.

9. ASSETS HELD-FOR-SALE

This account includes the following:

	2006	2005
Acquired assets being held for sale:		
From Financial Assistance	20,854,965	20,882,946
Allowance for probable losses	(9,188,275)	(6,043,300)
	11,666,690	14,839,646
Payment of receivables from closed banks	88,021	69,748
	11,754,711	**14,909,394**

10. INVESTMENT PROPERTIES

This consists of acquired assets of ₱104.5 million in 2006 being leased to third parties.

NOTES TO 2006 FINANCIAL STATEMENTS

11. PROPERTY AND EQUIPMENT – NET

This account includes the following:

Particulars	Land, Buildings and Structures a/	Furniture, Fixtures, Equipment & Books	Transportation Equipment	Leasehold Rights & Improvements b/	TOTAL
Cost					
January 1, 2006	171,523	143,824	5,576	2,723	323,646
Addition	-	30,680	-	-	30,680
Disposal	-	(26,154)	-	-	(26,154)
December 31, 2006	171,523	148,350	5,576	2,723	328,172
Acc. Depreciation					
January 1, 2006	(71,856)	(96,860)	(4,662)	-	(173,378)
Depreciation c/	3,473	(12,990)	(419)	(2,723)	(19,605)
Disposal	-	24,422	-	-	24,422
December 31, 2006	(75,329)	(85,428)	(5,081)	(2,723)	(168,561)
Net Book Value					
December 31, 2006	**96,194**	**62,922**	**495**	**-**	**159,611**
Net Book Value					
December 31, 2005	**99,667**	**46,964**	**914**	**2,723**	**150,268**

a. This account includes property located in Pasong Tamo, now Chino Roces Avenue, Makati City. Title already transferred to PDIC.

b. The account includes expenses incurred for the refurbishing of the PDIC extension office in Ayala Avenue, Makati City and has been fully amortized in 2006.

c. Depreciation and amortization expenses for 2006 and 2005 amounted to P19.60 million and P19.77 million, respectively.

12. INTANGIBLE ASSETS - NET

This account includes cost of computer software. Any software that is an integral part of the hardware computers are classified as Property and Equipment account.

	2006	2005
Cost	21,317	21,235
Accumulated Amortization	(18,812)	(18,802)
	2,505	**2,433**

NOTES TO
2006 FINANCIAL STATEMENTS

13. OTHER ASSETS – NET

This account includes the following:

	2006	2005
Other Assets Acquired through Financial Assistance	3,956,708	4,607,992
Allowance for Probable Losses	(3,956,708)	(2,760,000)
	-	1,847,992
Provident Fund - Housing and Car Fund a/	39,261	44,262
Prepayments b/	16,555	14,615
Guarantee Deposits c/	5,021	5,096
Inventories		
Office Supplies and Materials	1,905	1,345
Decals and Standees	373	474
	63,115	**1,913,784**

a. Advances to the Car Fund amounting to P39.26 million in 2006, and P5 million and P39.26 million for Housing Fund and Car Fund, respectively, in 2005.

b. Includes various prepaid expenses i.e. taxes on investments, IT maintenance service, insurance and others.

c. Includes miscellaneous assets such as subscriber's investments and deposits with utility companies (MWSS, MERALCO, and PLDT.)

14. PAYABLES

This account includes the following:

	2006	2005
Due to Officers and Employees a/	84,058	3,710
Accounts Payable b/	41,497	15,640
Other Payables c/	23,000	704,602
	148,555	**723,952**

a. Composed of unpaid salaries and benefits such as loyalty pay, overtime, performance incentive, rice benefit and tax refunds.

b. Refers to the amount due to various suppliers/creditors and unclaimed checks.

c. Other payables includes the following:

- Performance bid/bond payable
- Payables to resigned employees
- Temporary lodging account for collections to be applied against obligation to BSP funding the financial assistance extended to a bank
- Includes overpayment by banks, which are creditable to subsequent assessment period.

15. INTER-AGENCY PAYABLES

This account consists of the following:

	2006	2005
Bureau of Internal Revenue	284,832	81,156
PDIC Provident Fund	30,732	53,260
Government Service Insurance System	6,437	4,285
PhilHealth	365	275
Pag-IBIG	293	303
Bangko Sentral ng Pilipinas	170	-
Bureau of Treasury	22,609	105,932
	345,438	**245,211**

NOTES TO 2006 FINANCIAL STATEMENTS

16. ACCRUED INTEREST PAYABLE

This account consists of the following:

	2006	2005
Interest Payable- Current	616,434	738,284
Interest Payable- Non-current	5,360,866	3,970,051
	5,977,300	**4,708,335**

The balance of this account will be paid upon maturity of loans payable to BSP.

17. LOANS PAYABLE

This account represents outstanding loans payable to Bangko Sentral ng Pilipinas (BSP), which were used to fund the financial assistance to various banks and pay-out of insurance claims in the 1980s, consisting of the following:

	2006	2005
To finance assistance granted to various banks		
Commercial Banks	70,549,050	60,646,716
Thrift Banks	10,728,002	11,634,641
To service insurance claims in the 1980s and provide financial support in the merger of several rural banks	709,800	811,200
	81,986,852	**73,092,557**

18. ASSESSMENTS

This represents assessments collected from member banks as follows:

	2006	2005
Commercial Banks	5,347,146	4,964,209
Thrift Banks	538,249	465,901
Rural Banks	165,822	146,536
	6,051,217	**5,576,646**

19. INCOME FROM INVESTMENTS- NET

This account consists of the following:

	2006	2005
Interest income		
Savings Deposits	133,316	205,592
Time Deposits	20,152	36,814
Investments in Treasury Bills and Bonds	5,344,658	4,796,570
Investments in Bonds	58,991	53,775
Investments in Sinking Funds	1,065,388	38,982
	6,622,505	5,131,733
Final Tax	(1,308,885)	(1,000,497)
	5,313,620	**4,131,236**

NOTES TO 2006 FINANCIAL STATEMENTS

20. OPERATING EXPENSES

This account consists of the following:

	2006	2005
Personal Services	628,679	360,213
Maintenance and other operating expenses		
(including P1.91 billion in VAT compromise tax for 2006)	2,070,812	172,066
	2,699,491	**532,279**

21. PROVISION FOR INSURANCE LOSSES

Provision for insurance losses was P2.2 billion in 2006 and P3.6 billion for 2005.

22. INTEREST ON BORROWINGS

This account consists of Interest Expense totaling P2.71 billion in 2006 and P 2.91 billion in 2005 on outstanding loans to BSP used to fund the financial assistance to various banks.

23. LEASES

The Corporation leased the premises of the SSS at Ayala Avenue, Makati City which serve as the PDIC extension office for P21.71 million for a period of one year with the option to renew such lease annually under certain terms and conditions.

24. INCOME TAX DEFICIENCY

Includes compromise settlement totaling ₱683.10 million for income tax deficiencies for 2004 (₱316.90 million) and 2005 (₱366.20 million).

25. OTHER MATTERS

25.1 Outstanding Cases

The following cases may result in contingent liabilities as a consequence of adverse judgments that may be rendered subsequently:

a. Value-added Tax on Assessments

BIR assessed the Corporation for alleged tax liabilities representing unpaid value-added taxes (VAT) amounting to P2.52 billion, excluding interest and penalties, covering the years 1996 to 2002. PDIC contested the assessments on the following arguments: (1) PDIC is not engaged in the sale of goods or services but is a regulatory agency; (2) the services provided by PDIC are not one of those classified as non-life insurance; and (3) the assessment fees PDIC levies on member banks are mandatory government exactions that must be paid under pain of administrative and/or other sanctions. The issue on the "VATability" of assessment fees was eventually referred to the Department of Justice (DOJ) for adjudication on September 23, 2004.

In the meantime, and while the issue is pending with the DOJ, BIR issued a preliminary notice against PDIC for alleged VAT for taxable years 2003-2004 in the basic amount of P1.21 billion.

Without prejudice to the outcome of the DOJ case, a Memorandum of Agreement (MOA) between BIR and PDIC was entered into on March 30, 2006 where PDIC paid P1.50 billion upon execution and P200 million under protest for the year 2005 and the succeeding years. It was agreed that in the event of a final decision adverse to BIR, the latter shall refund to PDIC all the payments made under protest covering the period 2005 and thereafter. If on the contrary, PDIC shall pay the BIR the balance of basic VAT only. BIR continuously assesses PDIC for alleged deficiency VAT for the subsequent taxable years.

NOTES TO 2006 FINANCIAL STATEMENTS

b. Claims for Deposit Insurance

Three (3) cases were filed against the Corporation for payment of deposit insurance involving the estimated amount of P24.2 million. In addition, the Corporation, pursuant to Section 10 (c) of the PDIC Charter, initiated an action for judicial determination of deposits against a group of depositors where the claim involved is estimated at P3 million.

c. Claims of the Separated Employees

The total estimated claim to which the former employees of PDIC who were separated as a result of the reorganization pursuant to Section 22 of the PDIC Charter, as amended, are entitled to is P1.7 million. The release of the amount is conditioned on the finality of CSC Resolution No. 06-0836 dated May 12, 2006 upholding the validity of PDIC reorganization, which is now subject of a Motion for Reconsideration filed by the separated employees.

d. Cases Subject Matter of which are Incapable of Pecuniary Estimation but with Claims for Damages

There are seven cases where the Corporation was impleaded as a respondent or defendant. Of the seven cases, six involve acts of the Corporation in its capacity as Receiver of closed banks while the remaining case assails the validity of the Corporation's exercise of its investigative authority independently of the Monetary Board.

The above cases exclude the items in litigation, which were acquired from the banks that were extended financial assistance.

25.2 Banks under Receivership and Liquidation

There are 451 closed banks as of December 31, 2006 under PDIC receivership and liquidation including the 11 banks that were closed in 2006. The total estimated realizable value of assets and liabilities of the banks amount to P13.88 billion and P39.26 billion, respectively.

The outstanding Accounts Receivable - Receivership and Liquidation balance as of December 31, 2006 amount to P832 million.

25.3 Unpaid Claims for Insured Deposits

As of end of 2006, total claims for insured deposits filed totaled P16.45 billion representing 1,542,864 accounts. Claims totaling P449.31 million corresponding to 11,704 accounts are still unpaid due to various reasons such as: a) defective/incomplete supporting documents; b) with questions as to the validity of claims; c) claimants' whereabouts unknown, etc.

25.4 Contested Assessment Billings

In compliance with Regulatory Issuance No. 92-1 regarding rules and regulations governing the posting of security deposit by banks with contested billings, two banks have posted escrow deposits with government banks in the amount of P778.39 million for contested billings of P787.76 million including interests.

AUDITOR'S REPORT

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Diliman, Quezon City

STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Board of Directors
Philippine Deposit Insurance Corporation
Makati City

We have audited the accompanying balance sheet of Philippine Deposit Insurance Corporation (PDIC) as of December 31, 2006 and the related statements of income and expenses, changes in deposit insurance fund and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted state auditing standards in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philippine Deposit Insurance Corporation as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with applicable generally accepted state accounting principles in the Philippines.

Without qualifying our opinion, we draw attention to Note 25.1a to the financial statements. The Bureau of Internal Revenue assessed the Corporation the amount of P2.52 billion for basic VAT deficiencies for 1996 to 2002 and P1.21 billion for 2003 to 2004. PDIC contested said assessments and a case is pending for resolution with the Department of Justice (DOJ). Without prejudice to the outcome of the DOJ case, a Memorandum of Agreement between BIR and PDIC was entered into on March 30, 2006 where PDIC paid P1.50 billion upon execution and P200 million under protest for the year 2005 and succeeding years. It was agreed that in the event of a final decision adverse to PDIC, the Corporation shall pay the BIR the balance of basic VAT only.

COMMISSION ON AUDIT

JOSE R. ROCHA, JR.
Director IV
Cluster II-Financial B
Corporate Government Sector

March 20, 2007

BOARD OF DIRECTORS
(as of May 31, 2007)

(From left to right): BSP Deputy Governor Nestor A. Espenilla, Jr. (Alternate Director); PDIC President Michael A. Osmeña (Vice Chairman); Mrs. Carmen De Venecia Lim (Director); Finance Secretary Margarito B. Teves (Chairman); BSP Governor Amando M. Tetangco, Jr. (Director); and Mr. Ruben D. Almendras (Director)

Ricardo M. Tan
Vice Chairman
February 27, 2003-April 1, 2006

Imelda S. Singzon
Acting Vice Chairman
April 2, 2006-July 3, 2006

Margarito B. Teves, Finance Secretary
Chairman

Margarito B. Teves is a banker, an economist and a lawmaker. Prior to his appointment as Finance Secretary on July 12, 2005, he was president of the Land Bank of the Philippines.

His political career began in July 1987 with his election as Congressional representative of the 3rd District of Negros Oriental. As a lawmaker, he crafted several laws and bills, including Republic Act 7221 that liberalized the entry and scope of operations of foreign banks in the country; Republic Act 6911 or the Magna Carta for Small Enterprises; and Republic Act 8292, an Act amending the Patents, Trademarks and Copyright Laws of the country.

Michael A. Osmeña, PDIC President
Vice Chairman

Michael A. Osmeña was appointed Acting President on June 6, 2006 and assumed office on July 4, 2006. His banking career spans over 30 years with various senior management positions in corporate finance, credit management, and consumer banking.

He was the Senior Vice President and Sales Director of ABN AMRO from 1999 to 2001. He also worked with Bank of America Savings Bank as Senior Vice President and Chief Marketing Officer. He served as Assistant Vice President of Citibank N.A. for more than a decade (1977-1988) where he handled all aspects of global trade relationships of various Philippine-based multinational corporations including investment banking and financial advisory services.

Imelda S. Singzon, Officer-in-Charge, PDIC
and Acting Vice Chairman (*April 2, 2006 - July 3, 2006)*

Imelda S. Singzon is the Executive Vice President of Operations - Division II of the PDIC, a position she has held since August 2003. Prior to her appointment at PDIC, she was the First Senior Vice President and Head of the planning and research groups; and facilitation administration groups of the Philippine National Bank (PNB). Her career at the PNB started in 1982 with various management positions in economics and research; budget and corporate affairs; and training. She was also Vice President of the First Philippine Fund in New York, USA from October 1997 to March 2003.

Ricardo M. Tan, PDIC President & CEO
and Vice Chairman *(February 27, 2003 - April 1, 2006)*

Ricardo M. Tan served as vice chairman of the PDIC Board during his tenure as PDIC President and CEO from February 27, 2003 to Apil 1, 2006. He was the former Executive Vice President and Head of the Insurance and Risk Management Sector of PDIC. He carries with him 24 years of work experience in various positions held at the Asian Development Bank and four years of banking practice with the Rizal Commercial Banking Corporation. He was a former senior economist at the Central Bank (CB) and a CB Financial Attache in London. He also worked as Presidential Staff Assistant in the Office of the President in the early 1960s.

Amando M. Tetangco, Jr., BSP Governor
Director

Amando M. Tetangco, Jr. assumed the governorship of the Bangko Sentral ng Pilipinas (BSP) on July 4, 2005. He rose to become chief of the country's central bank after 30 years work experience in the bank. Prior to his appointment as BSP Governor, he was Deputy Governor in-charge of the Banking Services Sector, Economic Research and Treasury. He also represents the BSP at the NEDA Board which is chaired by the President of the Republic of the Philippines.

Carmen de Venecia-Lim, Private Sector Representative
Director

Carmen de Venecia-Lim joined the PDIC Board of Directors on May 2, 2001. She is currently a director at the UCPB and was former consultant at the Philippine National Bank (PNB) and Bank of Commerce. De Venecia-Lim

established her career in banking with the then Central Bank of the Philippines where she spent 16 years holding various positions including the rank of supervising bank examiner. She also served as Director to the boards of Philippine Commercial International Bank from 1997-98 and PNB Securities, Inc. from 1995-98. She was also the President of Carven Realty, Inc. and a Director of Philippine Chamber of Real Estate Professionals.

Ruben D. Almendras, Private Sector Representative
Director

Ruben D. Almendras assumed his post as PDIC Director on March 9, 2005. He is the Chairman of the Metro Cebu Water District (MCWD). He has served in various capacities as consultant, banker, chairman and president of private and government agencies in a career spanning over three decades. He is currently the president and director of Cebu International Finance Corporation (CIFC), a director of the board of the Philippine Bank of Communications; and vice president, treasurer and director of J.D. Almendras Corporation.

Nestor A. Espenilla, Jr., BSP Deputy Governor
Alternate Director

Nestor A. Espenilla, Jr. heads the Supervision and Examination Sector (SES), the supervisory arm of the Bangko Sentral ng Pilipinas (BSP). He assumed office in April 2005. His career at the BSP started in 1981. He also worked at the International Monetary Fund in Washington, D.C. in the early 1990s and participated in various international missions for the Philippine government.

BOARD COMMITTEES

AUDIT COMMITTEE

The Board Audit Committee provides oversight supervision over the Corporation's internal audit function. It ensures that the internal control system and the internal audit activities of the Corporation are adequate and that they operate effectively and efficiently. The authority of the Board Audit Committee emanates from the Audit Charter that provides a framework for an independent, objective assurance and consulting activity that will enhance control and internal audit in support of sound corporate governance.

(From left to right): BSP Deputy Governor Nestor A. Espenilla, Jr. (Member); Director Carmen De Venecia-Lim (Chairperson); and Director Ruben D. Almendras (Member)

RISK MANAGEMENT COMMITTEE

The Board Risk Management Committee (BRMC) oversees identification of risks and the Corporation's viability and capability to carry out its mandate. It recommends policy initiatives and changes to the PDIC Board of Directors to avoid, minimize, mitigate, transfer and manage identified risks. The BRMC likewise monitors the risk management performance system of the operating units against established risk limits and risk indicator ratios (e.g., liquidity ratios).

(From left to right): Director Carmen De Venecia Lim (Member); Director Ruben D. Almendras (Chairman); and Finance Secretary Margarito B. Teves (Member)

THE PDIC MANAGEMENT

Executive Committee

(Seated left to right) Cristina Que Orbeta, Executive Vice President; Michael A. Osmeña, President; and Imelda S. Singzon, Executive Vice President

(Standing left to right) Romeo M. Mendoza, Jr., General Counsel and Senior Vice President, Legal Affairs Sector; Ma. Ana Carmela L. Villegas, Senior Vice President, Management Services Sector; Alma Teresa R. Malanog, Senior Vice President, Corporate Services Sector; and Sandra A. Diaz, Senior Vice President, Financial Resource Management and Comptrollership Sector

Advocacy and Governance

(Seated left to right) Romeo M. Mendoza, Jr., General Counsel and Senior Vice President, Legal Affairs Sector; Michael A. Osmeña, President; and Ma. Ana Carmela L. Villegas, Senior Vice President, Management Services Sector

(Standing left to right) Fely D. Reyes, Officer-in-Charge, Internal Audit Group; Ma. Ester D. Hanopol, Vice President, Planning and Policy Group; Ma. Antonette B. Bolivar, First Vice President, Litigation and Investigation Group; Cristine C. Remollo, First Vice President, Legal Services Group; and Maria Leonida Fres-Felix, Vice President, Communications and Stakeholder Relations Group

Operations-Division I

(Seated left to right) Alma Teresa R. Malanog, Senior Vice President, Corporate Services Sector; Cristina Que Orbeta, Executive Vice President; and Josefina J. Velilla, First Vice President, Risk Assessment and Resolution Group 1

(Standing left to right) Lilian I. Serna, Vice President, Risk Assessment and Resolution Group II; Cynthia B. Marcelo, Vice President, Insurance and Risk Assessment Services Group; Nina Noreen A. Jacinto, Vice President, Administrative Services Group; and Eden Tita J. Dizon, Vice President, Asset Management and Disposal Group

Operations-Division II

(Seated left to right) Elizabeth E. Oller, First Vice President, CRL Services Group/Officer-in-Charge, Insurance Claims Group; Imelda S. Singzon, Executive Vice President; Sandra A. Diaz, Senior Vice President, Financial Resource Management and Comptrollership Sector

(Standing left to right) Irene D.L. Arroyo, Vice President, Financial Resource Management Group; Geronimo V. Ambe, Vice President, Comptrollership Group; Teresita D. Gonzales, Vice President, Receivership and Liquidation Group 1; and Nancy L. Sevilla, Vice President, Receivership and Liquidation Group 2

MANAGEMENT COMMITTEE

(as of May 31, 2007)

MICHAEL A. OSMEÑA
President
Office of the President

CRISTINA QUE ORBETA
Executive Vice President
Operations-Division I

IMELDA S. SINGZON
Executive Vice President
Operations-Division II

ROMEO M. MENDOZA, JR.
General Counsel, Office of the General Counsel
Senior Vice President, Legal Affairs Sector

SANDRA A. DIAZ
Senior Vice President
Financial Resource Management and Comptrollership Sector

MA. ANA CARMELA L. VILLEGAS
Senior Vice President
Management Services Sector

ALMA TERESA R. MALANOG
Senior Vice President
Corporate Services Sector

MA. ANTONETTE B. BOLIVAR
First Vice President
Litigation and Investigation Group

ELIZABETH E. OLLER
First Vice President, CRL Services Group
Officer-in-Charge, Insurance Claims Group

CRISTINE C. REMOLLO
First Vice President
Legal Services Group

JOSEFINA J. VELILLA
First Vice President
Risk Assessment and Resolution Group I

GERONIMO V. AMBE
Vice President
Comptrollership Group

IRENE DL. ARROYO
Vice President
Financial Resource Management Group

EDEN TITA J. DIZON
Vice President
Asset Management and Disposal Group

MARIA LEONIDA FRES-FELIX
Vice President
Communications and Stakeholder Relations Group

TERESITA D. GONZALES
Vice President
Receivership and Liquidation Group I

MA. ESTER D. HANOPOL
Vice President
Planning and Policy Group

NINA NOREEN A. JACINTO
Vice President
Administrative Services Group

CYNTHIA B. MARCELO
Vice President
Insurance and Risk Assessment Services Group

LILIAN I. SERNA
Vice President
Risk Assessment and Resolution Group II

NANCY L. SEVILLA
Vice President
Receivership and Liquidation Group II

FELY D. REYES
Officer-in-Charge
Internal Audit Group

LIST OF OFFICERS

(as of May 31, 2007)

ADVOCACY AND GOVERNANCE

OFFICE OF THE PRESIDENT

Michael A. Osmeña
President

Ma. Carmen Rosario Z. Recitas
Technical Assistant II

Guillermo G. Hernandez
Executive Assistant IV

OFFICE OF THE BOARD CHAIRMAN

Rosalia V. De Leon
Vice President

INTERNAL AUDIT GROUP

Office of the Vice President

Fely D. Reyes
Officer-in-Charge

Internal Audit Department I

Vivencio M. Maniago
Department Manager

Cyrus T. Galang
Senior Assistant Manager

Internal Audit Department II

Fely D. Reyes
Department Manager

Marilou G. Miranda
Assistant Manager

Information Technology Audit Department

Nancy M. Mendoza
Department Manager

OFFICE OF THE CORPORATE BOARD SECRETARY

Mary Rosalind A. Alarca
Department Manager

MANAGEMENT SERVICES SECTOR

Office of the Senior Vice President

Ma. Ana Carmela L. Villegas
Senior Vice President

PLANNING AND POLICY GROUP

Office of the Vice President

Ma. Ester D. Hanopol
Vice President

Planning and Information Management Department

Jose G. Villaret, Jr.
Department Manager

Josefina May G. Tatu
Assistant Manager

Antonio L. Panaligan
Assistant Manager

Policy and Systems Department

Vanessa Esther G. Manalo
Assistant Manager

Sheila Marie I. Aquino
Section Chief

INFORMATION TECHNOLOGY GROUP

Information Technology Solutions Department

Jose Alex P. Mercado
Officer-in-Charge/Senior Assistant Manager

Jose P. Miano
Assistant Manager

Jose Alexander G. Festin
Section Chief

Information Technology Services Department

Renar M. Gonzales
Department Manager

Madelaine Barbara M. Fernandez
Senior Assistant Manager

COMMUNICATIONS AND STAKEHOLDER RELATIONS GROUP

Office of the Vice President

Maria Leonida Fres-Felix
Vice President

Depositors Assistance Bureau

Carol P. Cagalingan
Section Chief

Corporate Communications Department

Auramar D. Calbario
Department Manager

PDIC Institutional Relations and Resource Center

Rosemarie O. Aguilar
Department Manager

Isabel P. Gaviola
Assistant Manager

OPERATIONS-DIVISION I

OFFICE OF THE EXECUTIVE VICE PRESIDENT

Cristina Que Orbeta
Executive Vice President

Christopher G. Suguitan
Technical Assistant II

INSURANCE AND RISK ASSESSMENT SERVICES GROUP

Office of the Vice President

Cynthia B. Marcelo
Vice President

Insurance and Risk Assessment Data Department

Daisy Ann T. Alagos
Assistant Manager

Ma. Lenita I. Floriza
Assistant Manager

FA Monitoring Department

Polo L. Pantaleon, Jr.
Officer-in-Charge/Senior Assistant Manager

Herminia S. Morales
Assistant Manager

ASSET MANAGEMENT & DISPOSAL GROUP

Office of the Vice President

Eden Tita J. Dizon
Vice President

ROPA Management and Disposal Department

Angel B. Obrero
Department Manager

Arabella M. Serrano
Senior Assistant Manager

Rizalina I. Repedro
Assistant Manager

Agnes E. Remolona
Assistant Manager

Loan Administration and Monitoring Department

Rossana V. Castalla
Department Manager

Jesus C. Apuan
Senior Assistant Manager

Esperanza L. Chingcuangco
Assistant Manager

Racelle B. Amingalan
Assistant Manager

RISK ASSESSMENT AND RESOLUTION GROUP I

Office of the First Vice President

Josefina J. Velilla
First Vice President

Risk Assessment and Resolution Department I

Josefina F. Songalia
Senior Assistant Manager

George Benedict O. Carreon
Assistant Manager

Ferdinand P. Robes
Assistant Manager

Risk Assessment and Resolution Department II

Josefina J. Velilla
Officer-in-Charge

Emma B. Ochosa
Senior Assistant Manager

Maileen M. Maloles
Assistant Manager

Risk Assessment and Resolution Department III

Marlowe F. Mikin
Department Manager

Marnie C. Lascano
Assistant Manager

Beatriz R. Angeles
Assistant Manager

RISK ASSESSMENT AND RESOLUTION GROUP II

Office of the Vice President

Lilian I. Serna
Vice President

Risk Assessment and Resolution Department IV

Bernadette G. Rosuelo
Assistant Manager

Risk Assessment and Resolution Department V

Shirley G. Felix
Officer-in-Charge

Elizabeth R. Padolina
Assistant Manager

Risk Assessment and Resolution Department VI

Shirley G. Felix
Assistant Vice President

Josefina R. Fajardo
Assistant Manager

CORPORATE SERVICES SECTOR

Office of the Senior Vice President

Alma Teresa R. Malanog
Senior Vice President

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT GROUP

Office of the Vice President

Alma Teresa R. Malanog
Officer-in-Charge

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Department Manager

Virgilio C. Estanislao
Assistant Manager

Arlene T. Pangilinan
Assistant Manager

Ma. Teresa C. Vestal
Assistant Manager

Organization and Human Resource Development Department

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Asuncion S. Calapan
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Eugene V. Borlongan
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Training Institute

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ADMINISTRATIVE SERVICES GROUP

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Vice President

Procurement, Property Management and Records Department

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Department Manager

Braulio B. Bumanglag
Assistant Manager

Victoria P. Blaza
Section Chief

Ricardo D. Antonio
Section Chief

General Services Department

Jesus Maria Jose L. Borja
Department Manager

Ernesto R. Torres, Jr.
Assistant Manager

Hernando L. Catigbe
Section Chief

OPERATIONS-DIVISION II

OFFICE OF THE EXECUTIVE VICE PRESIDENT

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Executive Vice President

INSURANCE CLAIMS GROUP

Office of the Vice President

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Officer-in-Charge

Presettlement Examination Department

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Nerilyn O. Abogado
Assistant Manager

Monina J. Cornista
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Claims Processing Department

Elaine B. Deticio
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Mila O. Tamayo
Assistant Manager

Claims Settlement Department

Merlie M. Cañaveral
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Rosenda L. Barril
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Eloida B. Indorte
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RECEIVERSHIP AND LIQUIDATION GROUP I

Office of the Vice President

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Vice President

Receivership and Liquidation Department I-A

Josette Sonia H. Marcilla
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Ana Rosa E. Viray
Assistant Manager

Receivership and Liquidation Department I-B

Ma. Bernadette R. Sanchez
Department Manager

Leon C. Cabradilla
Assistant Manager

Receivership and Liquidation Department I-C

Ferdinand M. Beluan
Department Manager

Imelda A. Barro
Assistant Manager

Josefina S. San Pedro
Assistant Manager

Receivership and Liquidation Department I-D

Ronald C. Angeles
Officer-in-Charge/Senior Assistant Manager

Elmer Juan C. Haber
Assistant Manager

RECEIVERSHIP AND LIQUIDATION GROUP II

Office of the Vice President

Nancy L. Sevilla
Vice President

Receivership and Liquidation Department II-A

Imelda R. Salgado
Senior Assistant Manager

Leonor S. Samonte
Assistant Manager

Ma. Nenita N. Gayla
Assistant Manager

Receivership and Liquidation Department II-B

Benefico M. Magday
Assistant Vice President

Florante D. Lucos
Assistant Manager

Rosalina G. Morales
Assistant Manager

Receivership and Liquidation Department II-C

Teodoro Jose D. Hirang
Assistant Vice President

Mary Ann C. Crisostomo
Assistant Manager

Fernando S. Boñula
Assistant Manager

Receivership and Liquidation Department II-D

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CRL SERVICES GROUP

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Nelson G. Portacio
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Dorothy C. Eamilao
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RL Administrative and Special Services Department

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Minviluz O. Rubrico
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Editha D. Tumang
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Property Appraisal Department

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FINANCIAL RESOURCE MANAGEMENT AND COMPTROLLERSHIP SECTOR

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FINANCIAL RESOURCE MANAGEMENT GROUP

Office of the Vice President

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Peter Noel P. Herrera
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Estelita R. Datingaling
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COMPTROLLERSHIP GROUP

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Comptrollership Department I

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Salud E. Margajay
Assistant Manager

Comptrollership Department II

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Assistant Manager

Ma. Lourdes R. Relucio
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LITIGATION AND INVESTIGATION GROUP

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Luisito Z. Mendoza
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Joselito S. Mendoza
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Jose Mari C. Gana
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Josette O. Resurreccion
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Legal Services Department II

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Delilah Grace V. Magtolis
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Ma. Pola S. Luanzon
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Clarence E. Dato
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Geoderick E. Carbonell
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Legal Risk and Compliance Management Department

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Aurelia, Edzel D.
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Ayran, Junnifer P.

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Barril, Rosenda L.
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Batalla, Ma. Rafaela T.
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Bitang, Democrito L.
Blaza, Victoria P.
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Boone, Aniceta A.
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Borlongan, Eugene V.
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Buising, Marymer D.
Bulong, Joseph S.
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Bundalian, Glenda G.

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Cabalatungan, Milajoy C.
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Casiño, Ronald S.
Castalla, Rossana V.
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Castro, Ruben S.
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Centino, Ofelia M.
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Cobilla, Francisco D.
Collo, Niña Jesusita P.
Comon, Bernadette P.
Concepcion, Dennis H.
Conge, Anastacio T.
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Costa, Henry A.
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Custodio, Angelito A.

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Datingaling, Estelita R.
Dato, Clarence E.
Datu, Flordelis M.
Datu, Marylyn I.
Dayog, Lily F.
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De Jesus, Menard B.
De Lemos, Raymond C.
De Leon, Alicia M.
De Leon, Joan S.

De Leon, Ma. Victoria J.
De Leon, Rafael D.
De Leon, Rosalia V.
De Mesa, Ma. Lourdes G.
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Decena, Marivic R.
Del Rosario, Alejandro S.
Dela Cruz, Amavi Y.
Dela Cruz, Emelina M.
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Dela Rosa, Franklin M.
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Dizon, Eden Tita J.
Dizon, Francisco N.
Dizon, Rosario E.
Dojillo, Alexander N.
Drilon, Ludovina V.
Dulalia, Rogelio Jr. P.
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Durana, Eunice L.

E

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Esteves, Cherrylyn L.
Estores, Gilda T.
Eugenio, Leah P.
Evangelista, Irene Mercedes D.

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Felix, Shirley G.
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Ferreras, Venus V.
Festin, Jose Alexander G.
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Gatpatan, Edgar G.
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Hirang, Teodoro Jose D.
Hortelano, Francis Randy J.

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Indorte, Eloida B.
Infante, Shiela Grace M.

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Javillo, Jonathan L.
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Jose, Napoleon D.
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Jurado, Rizalyn P.

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Literal, Nanete Q.
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Loyola, Reynalisa D.
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Lumiguen, Janice E.

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Magday, Benefico M.
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Manahan, Helen M.
Manalang, Jo-Ann Marie C.
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Ochosa, Emma B.
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Olase, Eliza R.
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Oller, Elizabeth E.
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Poblete, Lolita B.
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Portacio, Nelson G.
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Punay, Ma. Teresa N.
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Ramirez, Marcia Bella C.
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Rante, Rodolfo Reynaldo B.
Rebadavia, Jennette C.
Recitas, Ma. Carmen Rosario Z.
Reformado, Ma. Monita B.
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Remollo, Cristine C.
Remolona, Agnes E.
Repedro, Rizalina I.
Resurreccion, Josette O.
Resuta, Edmund Jerome G.
Reyes, Carmelyne J.
Reyes, Fely D.
Reyes, Lilian P.
Reyes, Raul C.
Reyes, Rey Michael H.
Reyes, Ronald L.
Ribay, Madeleine C.
Rico, Zenaida R.
Rigayen, Evangeline T.
Rivera, Cecilia C.
Rivera, Cristonick V.
Rivera, Radamis C.
Robes, Ferdinand P.
Rodrigo, Ramil B.
Rolle, Veronica O.
Ronquillo, Wilfredo Jr. E.
Roque, Anna Liese L.
Rosaceña, Voltaire E.
Rosuelo, Bernadette G.
Roxas, Shiela Marie P.
Rubrico, Minviluz O.

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Sabino, Robert Dennis S.
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Salamanca, Grace G.
Salazar, Jesus Jr. G.
Salceda, Arnel V.
Salcor, Ma. Theresa B.
Salgado, Imelda R.
Salinas, Emma F.
Salonga, Loretta M.
Salvo, Ma. Rulina U.
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Samonte, Leonor S.
Samson, Imelda D.
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Santos, Julita A.
Santos, Milet B.
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Sy, Emma D.
Sy, Myra S.
Sykimte, Baldwin L.

T

Tablizo, Edwin M.
Tabugader, Thelma M.
Tagle, Amabelle L.
Tamayo, Mila O.
Tamayo, Recaredo Leighton A.
Tan, Abella M.
Tan, Manuel C.
Tan, Ricky M.
Tan, Victoria D.
Tanieca, Corazon G.
Tatu, Josefina May G.
Tolentino, Ionie L.
Tongko, Bernardino A.
Torres, Andrew Fortunato Jr. D.
Torres, Chona P.
Torres, Daisy F.
Torres, Ernesto Jr. R.
Torres, Marcelo M.
Trogani, Martina C.
Tumang, Editha D.
Tumbokon, Nathanael A.
Turgo, Aurora P.

U

Unlayao, Jannel G.

V

Valdezco, Michael R.
Vallada, Ma. Joselyn S.
Vallado, Susan Victoria P.
Vargas, Ricky R.
Velasco, Janet L.
Velasquez, Tessie P.
Velez, Renato P.
Velilla, Josefina J.
Vergara, Norman Q.
Vestal, Ma. Teresa C.
Victoria, Genoveva A.
Villaluna, Niño Ray L.
Villanueva, Ma. Theresa S.
Villanueva, Margarita V.
Villareal, Joval L.
Villaret, Jose Jr. G.
Villegas, Ma. Ana Carmela L.
Villeno, Madeline T.
Viloria, Kathleen P.
Viñas, Glen P.
Viray, Ana Rosa E.

Y

Ybañez, Antonio Errol Jr. B.

REGULATORY ISSUANCE NO. 2006-01

TO : MEMBER BANKS
SUBJECT : RECORD KEEPING OF BANK DEPOSITS

SECTION 1. ***Documents Required to be Submitted to PDIC.***

Each member bank shall submit to PDIC the following documents:

a) ***Operations Manual on Record Keeping of Deposits.*** The operations manual on record keeping of deposits shall contain the procedures and guidelines covering the recording of depositor/deposit information as well as safekeeping of deposit related files/documents, as follows;

i) list of documents required to be submitted for opening a deposit account and procedures for accepting/updating of deposits and processing of documentary requirements
ii) description and process/document flowchart of deposit account management system
iii) description of the system for recording and updating depositor profiles
iv) procedures / formula on accrual and computation of interest for each deposit product
v) policies on inactive/dormant deposit accounts
vi) form of storage (i.e. hardcopy or softcopy) and storage site
vii) description of back-up depositor/deposit account files, including maintenance policies procedures, whether on-site or off-site (specify location)
viii) list of bank officer/s accountable for ensuring proper record keeping of deposits
ix) all other policies/procedures and guidelines relating to recording of deposit transactions and safekeeping of related files/documents

In the event that the member bank does not have a separate operations manual on record keeping containing the information, procedures and guidelines referred to above, the bank may extract the information, procedures and guidelines from its Main Operations Manual and/or equivalent manual. If no manual or procedures/guidelines exists, the member bank shall immediately formulate and adopt the pertinent procedures and guidelines in this regard. In all cases, the bank president, and/or compliance officer, shall certify to bank's compliance with the said procedures and guidelines on record keeping of deposits.

b) ***Features of Computerized Deposit Database.*** Banks with computerized record-keeping of deposit transactions shall be required to accomplish and submit *Annex "A" (PDIC Form RK-1)* covering relevant information on their computerized deposit database attested to by the bank's compliance officer or chief financial officer or comptroller.

c) ***Schedule of Deposit Products.*** A notarized Schedule of Deposit Products (*Annex "B" or PDIC Form RK-2*) duly signed by the bank's compliance officer enumerating all types of deposit products offered to the public. Said Schedule shall include a description of each product, interest rate, maturity, date of launch and BSP approval of the product, if any, required minimum balance and other pertinent data concerning the product. Initial Schedule to be submitted shall cover outstanding deposit products as of the date of the RI's effectivity. For subsequent submissions, the Schedule shall include new deposit products launched and terminated during the reference semester.

d) ***Bank Certification.*** A notarized certification in the form and substance as *Annex "C" (PDIC Form RK-3)* shall be duly signed by the bank's president or compliance officer, attesting that the member bank;

i) keeps and maintains a true and accurate record or statement of its daily deposit transactions and updated balances

consistent with the standards required under existing regulations, such as but not limited to those enumerated in *Annex "D"* and any amendments thereto;

ii) has submitted to PDIC reportorial requirements under Sections 1a, 1b and 1c of this regulatory issuance and any amendments/updates thereto.

SECTION 2. ***Compliance Period and Frequency of Submission.***

The required operations manual on record keeping of deposits, features of computerized deposit database *(Annex "A")*, schedule of deposit products (*Annex "B"*), and the bank certification (*Annex "C"*) shall be submitted within thirty (30) days from the date of effectivity of this Regulatory Issuance. Thereafter, the schedule of deposit products (Annex "B") and the required bank certification *(Annex "C")* shall be submitted on a semestral basis, *i.e.*, January 31 and July 31 of each year.

Any updates/changes in the operations manual on record keeping of deposits and/or features of the computerized deposit database *(Annex "A")*, shall be submitted within 30 days from effectivity thereof.

SECTION 3. ***Willful Refusal or Failure to Submit the Required Documents and Willful Making of False Statement or Entry in the Required Documents.***

Should an insured bank fail or refuse to submit required documents after being reminded twice (2x) by the PDIC of its failure to comply with said requirement, such act shall constitute willful failure or refusal by the bank to submit required documents stipulated in this regulatory issuance.

Willful refusal or failure to submit the required documents shall constitute a violation of Section 9(d)(1) of RA 3591, as amended, and shall make the president of the bank or its compliance officer criminally liable in accordance with Section 21 (f) of RA 3591, as amended, and/or administratively liable pursuant to Section 21 (g) thereof, as implemented by Regulatory Issuance No. 2005-03. **"Willful refusal"** shall refer to the unjustified failure or avoidance or delay to perform an obligation imposed upon a bank or any of its director(s), officer(s), employee(s) or agents under any order, regulation or directive issued by the PDIC. *(Section 1(f), RI 2005-03)*

Any willful making of false statement or entry in the required documents shall also make the responsible officer/s or employee/s of the bank criminally liable in accordance with Section 21 (f) of RA 3591, as amended, and/or administratively liable pursuant to Section 21 (g) thereof, as implemented by Regulatory Issuance No. 2005-03. **"False statement"** shall refer to untrue, incorrect, inaccurate, erroneous and/or misleading information/statement as to facts alleged or amounts reported or stated in the reports and/or supporting schedules/attachments or forged, altered and/or tampered documents/papers. *(Section 1(c) of RI 2005-03)*

SECTION 4. ***Repealing Clause.***

All other related rules and/or regulations of the PDIC which are inconsistent herewith, are hereby repealed or amended accordingly.

SECTION 5. ***Effectivity.***

This Regulatory Issuance shall take effect fifteen (15) days after publication in a newspaper of general circulation.

MICHAEL A. OSMEÑA
Acting President

August 15, 2006

REGULATORY ISSUANCE NO. 2006-02

TO : MEMBER BANKS
SUBJECT : FURTHER AMENDMENT TO PART III (ASSESSMENTS) OF THE PDIC RULES AND REGULATIONS, AS AMENDED

Pursuant to provisions of Republic Act (RA) No. 3591, as amended, the Board of Directors of PDIC, by virtue of Resolution No. 2006-10-150 dated 25 October, 2006, approved the following amendment to Section 1 (a) of the PDIC Regulatory Issuance No. 2002-04, which amended Section 3.02 paragraph 4 of the PDIC Rules and Regulations, prescribing a new conversion rate for foreign currency denominated deposits (FCDs) for purposes of computing the assessment, as follows:

The last paragraph of Section 1(a) of the PDIC Regulatory Issuance No. 2002-04, shall read as follows:

> Deposits maintained in foreign currencies in an insured bank shall form part of total deposit obligations of said bank. **Foreign currency denominated deposits shall be converted to pesos using the Philippine Dealing System (PDS) closing rates as of the assessment base days. Provided, That, in the event of future amendment of the prescribed conversion rate for foreign exchange transactions, the basis for converting foreign currency denominated deposits into pesos shall be aligned with the Bangko Sentral ng Pilipinas prescribed conversion rate as of assessment base days."**

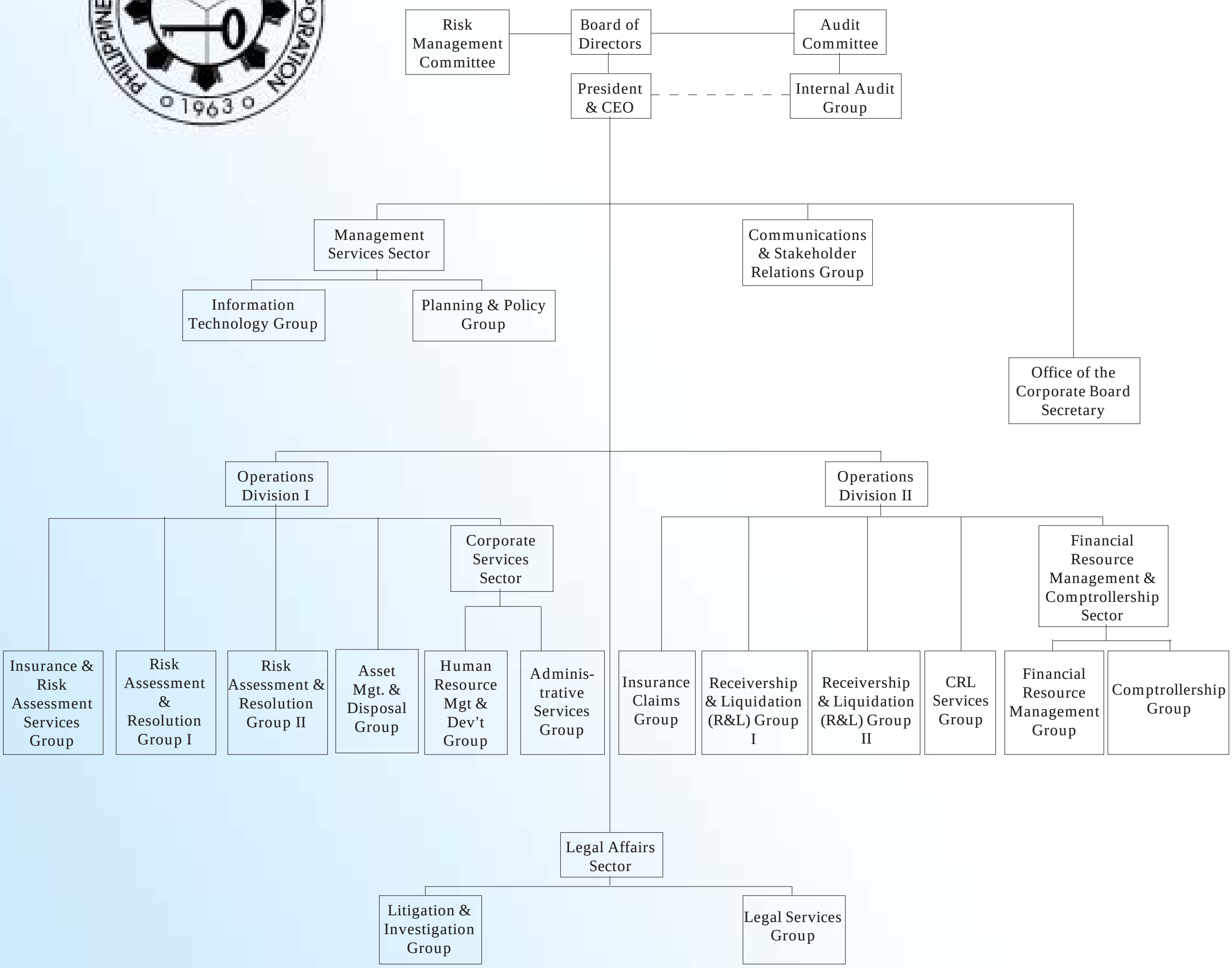
This RI shall take effect fifteen (15) days after publication in a newspaper of general circulation.

For guidance & compliance.

IMELDA S. SINGZON
Officer-In-Charge

Date Published: November 22, 2006

Organizational Chart



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