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Philippine Deposit Insurance Corporation Annual Report 2011

Philippines: Deposit Insurance Corporation (PDIC)

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PDIC: AT THE CORE OF PUBLIC CONFIDENCE

2011
ANNUAL REPORT



ABOUT THE Cover

The theme, “At the Core of Public Confidence,” is visually represented by the “core.” It represents the critical role PDIC plays in helping maintain stability in the country’s financial system. Its multi-faceted mandates as Deposit Insurer, Co-Regulator, and Receiver and Liquidator of closed banks place the PDIC at the center of delivering public service to the depositing public.

The “core” resonates the sun, together with its rays, as the source of energy and light. It likewise embodies the Corporation’s wide-ranging services to protect the interests of the depositors from which it draws inspiration to continually improve.

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Mission

We exist to provide permanent and continuing deposit insurance coverage for the depositing public.

We shall:

- exercise complementary supervision of banks,
- adopt responsive resolution methods,
- ensure prompt settlement of insured deposits, and
- apply efficient management of receivership and liquidation functions

so that the Corporation can contribute to the promotion of public confidence and financial stability in the economy.

Vision

We will be a world-class organization in depositor protection.

Core Values

In our commitment to public service, we value:

- Integrity
- Professionalism
- Excellence
- Teamwork
- Respect for all People



PHILIPPINE DEPOSIT INSURANCE CORPORATION

VALENTIN A. ARANETA
President

October 2012

HIS EXCELLENCY
PRESIDENT BENIGNO S. AQUINO III
Malacañan Palace, Manila

Through:

Honorable CESAR V. PURISIMA
Secretary, Department of Finance
Chairman, PDIC Board of Directors

Dear Mr. President:

I have the honor to submit the Annual Report of the Philippine Deposit Insurance Corporation (PDIC) for the year 2011. The Report compiles the Corporation's accomplishments and initiatives to implement its mandates as Deposit Insurer, Co-Regulator of banks, and Receiver and Liquidator of closed banks.

On behalf of the PDIC Board of Directors, management and staff, I renew the Corporation's steadfast commitment to protect the depositing public and help contribute to financial stability.

Very truly yours,



PHILIPPINE DEPOSIT INSURANCE CORPORATION

VALENTIN A. ARANETA
President

October 2012

Honorable JUAN PONCE ENRILE
President of the Philippine Senate

Honorable FELICIANO R. BELMONTE, Jr.
Speaker of the House of Representatives

Through: **Honorable CESAR V. PURISIMA**
Secretary, Department of Finance
Chairman, PDIC Board of Directors

Dear Gentlemen:

On behalf of the Board of Directors, management and staff of the Philippine Deposit Insurance Corporation (PDIC), it is my honor to submit the Annual Report of the Corporation for the year 2011. The Report recounts significant highlights of the PDIC's undertakings and achievements in the implementation of its mandates on deposit insurance, co-regulation of banks, and receivership and liquidation of closed banks.

I convey my gratitude for your support in enabling the PDIC to protect the interests of the depositing public.

Very truly yours,





PHILIPPINE DEPOSIT INSURANCE SYSTEM

At a Glance

The Philippine Deposit Insurance Corporation (PDIC) is a government instrumentality created on June 22, 1963 by Republic Act 3591 entitled, *An Act Establishing the Philippine Deposit Insurance Corporation (PDIC), Defining Its Powers and Duties and for Other Purposes (the "PDIC Charter")*. PDIC was created to “promote and safeguard the interests of the depositing public by way of providing permanent and continuing insurance coverage on all insured deposits.” The PDIC also aims to strengthen the mandatory deposit insurance coverage system to generate, preserve, and maintain faith and confidence in the country’s banking system, and protect it from illegal schemes and machinations.

Mandate

Consistent with its public policy objectives, the PDIC has the following mandates:

- I. *As State Deposit Insurer.* The Corporation provides deposit insurance of up to Php500,000, the maximum deposit insurance coverage. Member-banks are assessed annually at a flat rate of 1/5 of 1% of their total deposit liabilities. The assessments are collected from member-banks semi-annually and form part of PDIC’s Deposit Insurance Fund (DIF).
- II. *As Co-Regulator of banks.* PDIC works closely with the Bangko Sentral ng Pilipinas (BSP) in strengthening the banking system. PDIC is authorized to issue regulations to implement its Charter, conduct bank examinations and investigations to determine banks’ financial health and their adherence to rules and regulations on banking and deposit insurance, and extend financial assistance to distressed banks.
- III. *As Statutory Receiver.* PDIC is the statutory receiver and liquidator of all closed banks. Upon order of the Monetary Board of the BSP, PDIC takes over closed banks, administers their assets, records and affairs; and preserves and disposes these assets for the benefit of the closed banks’ creditors. If the Monetary Board orders the liquidation of a bank that has been placed under receivership, creditors’ claims against the bank are settled according to the preference and concurrence of credits as provided by the Civil Code of the Philippines.

Membership

Membership with PDIC is mandatory for all banks licensed by the BSP to operate as such in the Philippines.

- Banks incorporated under Philippine laws, such as commercial banks, development banks, savings and loan associations, and rural or cooperative banks
- Domestic branches of foreign banks

Scope of Deposit Insurance Protection

As a rule, PDIC provides deposit insurance of up to Php500,000 per depositor per bank. It covers all types of bank deposits in member-banks denominated in both local and foreign currencies. As of December 31, 2011, total deposits in the banking system amounted to Php5.4 trillion consisting of 43.7 million deposit accounts. 97.2% of the deposit accounts are fully covered by deposit insurance.

PDIC insures valid deposits in domestic offices of its member-banks, as follows:	The following bank products are not covered by deposit insurance:
<p>By Deposit Type:</p> <ul style="list-style-type: none"> - Savings - Special Savings - Demand/Checking - Certificate of Time Deposits <p>By Deposit Account:</p> <ul style="list-style-type: none"> - Single Account - Joint Account - Account “By”, “In Trust For” (ITF) or “For the Account of” (FAO) another person <p>By Currency:</p> <ul style="list-style-type: none"> - Philippine peso - Foreign currencies considered as part of international reserves at the Bangko Sentral ng Pilipinas 	<ul style="list-style-type: none"> i. Certain bank products such as trust and investment products, bonds and securities, and similar instruments ii. Deposit accounts or transactions that: <ul style="list-style-type: none"> a. Are unfunded, or fictitious or fraudulent b. Emanated from or constituting unsafe and unsound banking practice/s* as determined by the PDIC in consultation with the BSP, after due notice and hearing and publication of PDIC’s directive to cease and desist against such deposit accounts/transactions c. Are determined to be proceeds of unlawful activity as defined in the Anti-Money Laundering Act (Republic Act 9160, as amended)


**Under PDIC Regulatory Issuance No. 2011-01, the PDIC shall deem a deposit-related practice, activity, transaction, or omission to be an unsafe and/or unsound banking practice when it has resulted or may result in:*

1. *Unreasonable delay in the processing or determination of the validity of deposit claims in the event of bank closure; or*
2. *Material loss or damage or abnormal risk to the bank’s depositors, creditors, shareholders, or to the PDIC; or*
3. *Material loss or damage or abnormal risk or danger to the safety, stability, liquidity, or solvency of the bank.*

The following activities may be considered unsafe and/or unsound deposit-related practices:

1. *Deposit-related practice/activity/transaction without the approval or adequate controls required under existing laws, rules and regulations;*
2. *Failure to keep bank records within bank premises;*
3. *Grant of high interest rates, when bank has: a) negative unimpaired capital or b) liquid assets to deposit ratio of less than 10% or an operating loss;*
4. *Non-compliance with PDIC regulations; or*
5. *Other deposit related practices, activities, and transactions that may be identified through appropriate issuances.*





Together with PDIC,
Philippine financial
regulators are diligently
strengthening the regulatory
framework to effectively
monitor and respond
to external and internal risks.



Chairman's MESSAGE

The Philippine Deposit Insurance Corporation in 2011 served its constituency well as it efficiently processed the settlement of about Php11.6 billion in insured deposits, strengthened coordination mechanisms with key financial regulators, and aggressively went after banks that threatened the security of their depositors.

The threat to depositor protection and financial stability of systemic shocks recently seen in the United States and Europe have brought to the fore the need for close coordination and cohesive interaction among deposit insurers and the other regulators concerned with the stability of the financial system. Together with PDIC, Philippine financial regulators are diligently strengthening the regulatory framework to effectively monitor and respond to external and internal risks.

Another key area of cooperation is in the surveillance and supervision of banks. Deposit protection is a crucial pillar of any economy because deposits serve as the foundation of financial markets. Any bank that endangers the deposits which have been entrusted to them, threatens the stability of the entire financial system, and should be heavily penalized. I congratulate the leadership of the PDIC for working closely with the Bangko Sentral ng Pilipinas in going after entities that jeopardize public confidence in the financial system through fraud or mismanagement.

Through PDIC's unwavering commitment to protect our depositors and to bring to justice those that seek to deceive them, you bring to reality President Aquino's promise to put in place an honest and accountable government that upholds the rule of law and ensures that prosperity is shared by all.

Mabuhay kayong lahat!

CESAR V. PURISIMA
Secretary of Finance
Chairman, Philippine Deposit Insurance Corporation





PDIC hopes to further streamline and innovate the claims processing and payout schemes so that depositors will gain immediate access to their deposit insurance claims.



President's REPORT

The year 2011 was a year of challenges for the Philippine Deposit Insurance Corporation (PDIC). While the Philippine banking system was transitioning with the Philippine economy into greater fundamental strength, the Corporation had to deal with the issues of resolution and closures of distressed and failed banks. These included the resolution through successful bidding for a strategic third party investor into a publicly listed commercial bank and a publicly listed medium-sized savings bank.

The 2011 Annual Report includes highlights of the Corporation's accomplishments and initiatives pursued by the PDIC Board of Directors, senior management and staff to render depositor protection, strengthen the deposit insurance system, and help maintain financial stability.

As Deposit Insurer

The Corporation continued to build the level of the Deposit Insurance Fund (DIF), the funding source for payouts of deposit insurance claims and assistance to eligible banks. As of yearend, the DIF increased by 18.7% to Php76.7 billion from Php64.6 billion in 2010, notwithstanding the considerable payouts made to closed banks. The ratio of DIF¹ to the insurance reserves target (IRT)² was 97%, exceeding the performance standard set at 91%. The IRT for 2011 was Php72.8 billion.

Over the years, PDIC has risen up to the challenge of its most important function as a deposit insurer that is the conduct of timely and accurate payouts of insured depositors. Of the 29 banks ordered closed by the Monetary Board in 2011, PDIC started claims settlement operations on the first 26 closed banks during the year. The claims settlement operations for the three bank closures that followed in the latter part of 2011 will commence in 2012. On the other hand, claims settlement operations for the two banks that closed in the latter part of 2010 started in the early part of 2011. PDIC paid out total claims of Php11.6 billion covering 226,970 insured deposit accounts for the year.

The Corporation retained its ISO Certification as it passed the first surveillance audit on its Quality Management System (QMS) for claims settlement operations conducted by Certification International Philippines, Inc.

During the year, the PDIC expanded the waiver for filing deposit insurance claims to include valid accounts with balances of Php10,000 and below from the previous ceiling of Php5,000 and below to hasten the payout process for more depositors of closed banks.

Moving forward, PDIC hopes to further streamline and innovate the claims processing and payout methods.

As Co-Regulator

A total of 64 banks with estimated insured deposits of Php11.3 billion were examined during the year either jointly with the Bangko Sentral ng Pilipinas (BSP) or independently. Bank examination and monitoring provide for early detection of bank weaknesses and fraud that may help prevent failures. PDIC also monitors banks using offsite analyses based on the reports generated by its Offsite Bank Rating Model.

¹As ratio to IRT, the DIF is adjusted to Php70.8 billion upon excluding Php5.9 billion unrealized gain on sale of investment due to reclassification of the Corporation's outstanding Held-to-Maturity investments totaling Php88.2 billion to Available-for-Sale investments with a market price of Php94.1 billion.

²The IRT is the reasonable level of insurance reserves and consists of specific reserves to cover potential losses from banks that have high probability of failure; and general reserves to cover unanticipated losses from deposit insurance payouts and grant of financial assistance.



PDIC issued four Regulatory Issuances (RI) in 2011. These are: 1) RI No. 2011-01 - Unsafe and Unsound Banking Practices; 2) RI No. 2011-02 - Rules and Regulations Governing Deposit Accounts or Transactions Excluded from the Coverage of Deposit Insurance; 3) RI No. 2011-03 - Rules Governing Requests for Reconsideration of Denied Deposit Insurance Claims; and 4) RI No. 2011-04 – Rules on Net Out of Obligations to Determine Insured Deposit.

These Regulatory Issuances are aimed at promoting discipline in the banking system and providing guidance to depositors on their insurance claims.

There were eight applications for the Strengthening Program for Rural Banks (SPRB) during the year, four of which were approved by the PDIC Board of Directors with estimated assistance totaling Php172.5 million. The SPRB, which was launched in August 2010, is an incentive program jointly administered by the PDIC and the BSP, to promote mergers and consolidations of distressed rural banks with eligible strategic third party investors.

PDIC hopes to expand the SPRB to include cooperative and thrift banks starting next year.

As Receiver and Liquidator

As statutory receiver, PDIC took over 29 banks ordered closed by the Monetary Board which consisted of four thrift banks and 25 rural banks. During the year, 11 of these closed banks were recommended for liquidation to the Monetary Board. The rest remained under receivership as of yearend.

The Corporation, acting as liquidator, distributed assets to creditors amounting to Php192.4 million which represents 82% of the remaining Php234.2 million targeted for asset distribution at the beginning of the year. The remaining 18% of assets not distributed by yearend were unclaimed assets. If these are not claimed within the three-year claim period, they will be reported to the Bureau of the Treasury for escheat.

The Receivership and Liquidation Sector closely works with the Legal Affairs Sector of PDIC in filing criminal and civil cases against the perpetrators of fraud and unsafe and unsound banking practices in closed banks to set an example and deter further illegal activities in banks and to recover assets for closed banks' creditors.

PDIC continued its efforts for the passage of the Closed Bank Liquidation Act (CBLA). CBLA will be a comprehensive law to govern the liquidation of closed banks in the Philippines. The proposed CBLA covers non-conventional liquidation mechanisms that will enable the takeover and servicing of the deposits of a distressed bank in a smooth manner and allow expeditious liquidation of closed banks.

As an Organization

PDIC continued its capability-building and skills development programs for personnel to improve public service delivery. It likewise engaged in information technology systems improvements such as the Bank Performance Monitoring System and the Claims System to generate improved and timely reports, maximize existing resources and deliver services faster and more effectively to the public and member-banks.

Standard Operating Guidelines and Instructions in critical areas of operation were either formulated or revised to enhance operational efficiency, promote the more effective management of manpower and office resources, and strengthen governance.



President Valentin A. Araneta took his oath of office before Finance Secretary Cesar V. Purisima.



PDIC works closely with the major bank groups such as the Rural Bankers Association of the Philippines (RBAP) in helping maintain a sound and stable banking system.

As Member of the Financial and International Community

PDIC’s advocacy program, the “Be a Wise Saver” campaign, reached a wider audience during the year. Several roadshows covering different areas of the country were conducted to disseminate information about saving and bank products.

The Financial Literacy Project of the PDIC and the Department of Education (DepED) is continuously being implemented. Collaborations are being undertaken to enhance and expand the project.

To help ensure a sound banking environment, the PDIC partnered with the Anti-Money Laundering Council (AMLC) to adopt a framework for an effective exchange of data and information. This is aimed at strengthening the capabilities and efforts of PDIC and AMLC to investigate and detect money laundering, fraud, and other irregularities and anomalies committed in the handling and use of bank deposits that may constitute unlawful activities under the Anti-Money Laundering Act (AMLA) and other laws. The agreement is seen to help PDIC and the AMLC in prosecuting and bringing to justice those who commit bank fraud or violate banking laws. It is also expected to help in the recovery of assets that rightfully belong to depositors.

The PDIC continued its active engagement with the international community of deposit insurers for the exchange of expertise and experiences, leading towards enhanced prudence in administration and regulation, for the stability of the banking system. The PDIC President was elected Member of the Executive Council during the 10th International Association of Deposit Insurers (IADI) Annual General Meeting and Conference held in October 2011. The Executive Council is the policy-making body of the IADI.

The PDIC Roadmap 2012 – 2016

The PDIC has outlined its five-year Strategic Roadmap from 2012 to 2016 (Roadmap to 2016). The roadmap covers five key areas of deposit insurance:

1. **Early detection of bank weaknesses and fraud to prevent bank failure;**
2. **The strengthening of the organization and enhancing its financial and service capabilities;**
3. **The pursuit of legislative reforms covering bank liquidation and other bank laws in accordance with international benchmarks;**
4. **Public engagement; and**
5. **The liquidation of non-financial assets to further strengthen the Deposit Insurance Fund.**

These basic policy directions of the roadmap are to be pursued simultaneously and are expected to strengthen further the banking system and enhance the capabilities of PDIC and other regulators in protecting and fostering stability in the banking system of the Philippines.



VALENTIN A. ARANETA

At par with the standards of best practices in deposit insurance and in establishing stability in the banking system, PDIC has outlined its Medium-Term Strategic Roadmap.



PDIC President Valentin A. Araneta and IADI Executive Council Chairman Martin J. Gruenberg at the IADI Annual Conference in Warsaw, Poland.



Economy & Banking



Economy & BANKING

The Economic Environment

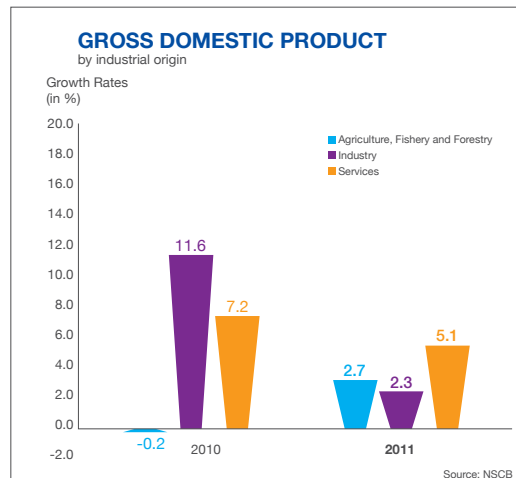
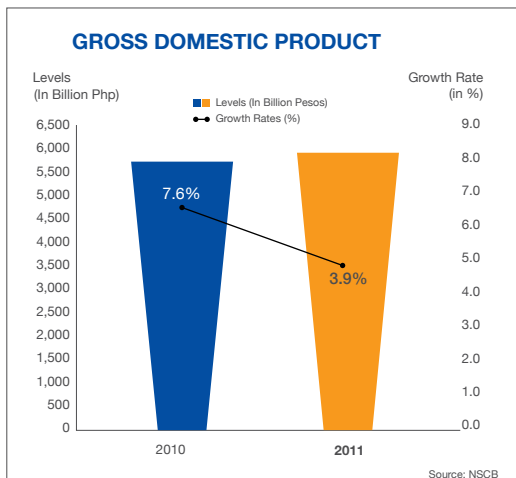
The Philippine economy grew modestly in 2011 amid challenges in internal and external fronts. Gross domestic product (GDP) managed to post a growth of 3.9% from 7.6%, previously. The growth was lower than the official target of 7%. The slowdown was primarily due to tempered government spending and weak demand for the country's exports. Also, severe weather conditions in the second semester affected growth in Agriculture, particularly, palay and corn. Nevertheless, inflation and interest rates remained low while the peso-dollar exchange rate was steady.

The Services Sector continued to lead the growth on the production side. The Services Sector grew by 5.1% from 7.2% in 2010 mainly as a result of expansion in Real Estate, Renting and Business Activity; Other Services; and Financial Intermediation. The sustained growth of the real estate subsector was largely driven by high demand for real properties from overseas Filipinos and their beneficiaries. On the other hand, the performance of Other Services was primarily supported by hotels and restaurants, sewage and refuse disposal entities, while Financial Intermediation was boosted by insurance companies and non-banks.

Agriculture, fishery and forestry went up from -0.2% in 2010 to 2.7% in 2011. Industry slowed down from 11.6% in 2010 to 2.3% in 2011. Public Construction sub-sector contracted due to restrained fiscal spending while Private Construction expanded at a slower pace. Manufacturing was heavily affected by weak demand for exports. Electricity, Gas and Water Supply registered a measly growth of 0.6% from 9.9% in the previous year.

Agriculture, Fishery and Forestry Sector managed to grow by 2.7% after contracting by 0.2% in 2010, despite the damages on agricultural production particularly palay and corn due to adverse weather conditions in the second half of 2011.

Gross Domestic Product grew **3.9%**.





Monthly inflation averaged at **4.8%**.

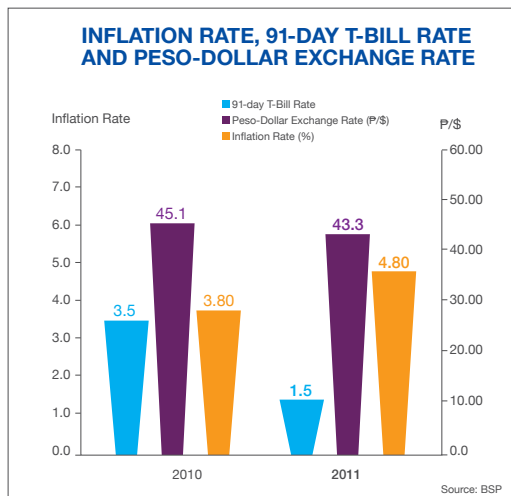
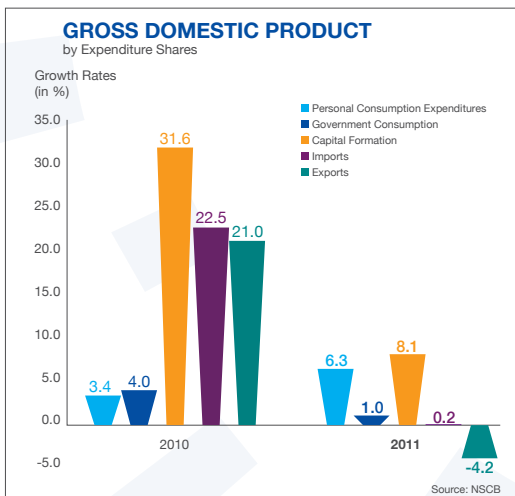
Household Consumption was the main growth driver on the expenditure side. With a 6.3% growth in 2011, consumer spending was supported by strong remittances from abroad, a relatively stable peso-dollar exchange rate and low inflation. In contrast, Government Consumption slowed down to 1.0% from 4.0% in 2010, contributing to deceleration in Capital Formation to 8.1% from a growth of 31.6% in 2010.

The devastating natural disasters in Japan and Thailand disrupted supply chains in the world markets resulting in low global demand for Philippine products. Exports posted a contraction of 4.2% from a growth of 21.0% in 2010. Imports also declined to 0.2% from a 22.5% growth in 2010.

Monthly inflation rate averaged 4.8% in 2011, higher than last year's 3.8% as food prices rose due to adverse weather conditions that affected the production of agricultural and food items. Inflation was, however, contained within the government's target of 3% to 5% for 2011.

The peso-dollar exchange rate averaged Php43.3, stronger than last year's Php45.1. The appreciation was partly attributed to news of the country's credit rating upgrade that renewed investors' confidence. Constant stream of Overseas Filipino Worker (OFW) remittances, net portfolio investments, and foreign direct investments also sustained the strength of the peso. The significant drop in key interest rates in 2011 strengthened prospects for the economy, despite global economic uncertainties.

In this time of economic slowdown, the country has to take advantage of opportunities in the global economic rebalancing to propel the Philippine economy to a higher growth path. Sustaining domestic investments and accelerating government spending along with reforms geared towards self-sufficiency in financing annual requirements are on the right direction to realize this goal in the coming years.



The Banking Sector

Philippine banks remained sound, with improved capital adequacy and asset quality, and growth in assets and profitability sustained in 2011.

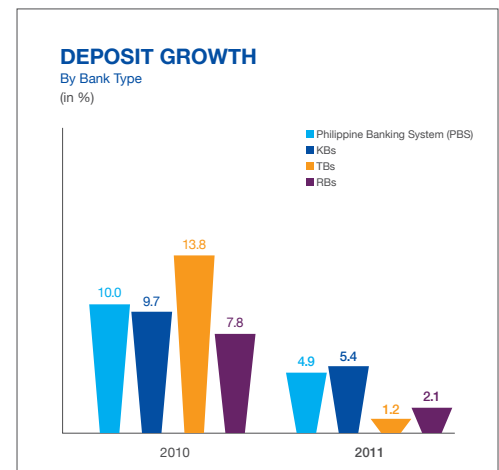
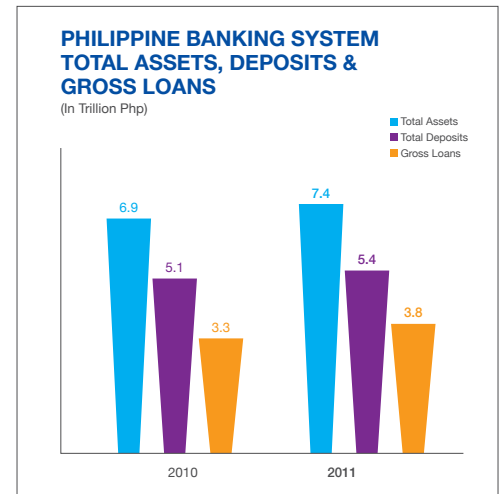
Deposits continued to fund asset growth. Total assets of the banking system grew by 6.2% to Php7.4 trillion, funded largely by deposits which increased by 4.9% to Php5.4 trillion. Gross loans expanded by 14.0% to Php3.8 trillion.

Deposit growth decelerated by about half of last year's rate. Commercial banks (KBs) posted the highest deposit growth among all bank types with 5.4%, followed by rural banks (RBs) with 2.1% growth. Thrift banks' (TBs) deposit growth slowed the most to 1.2% from 13.8%.

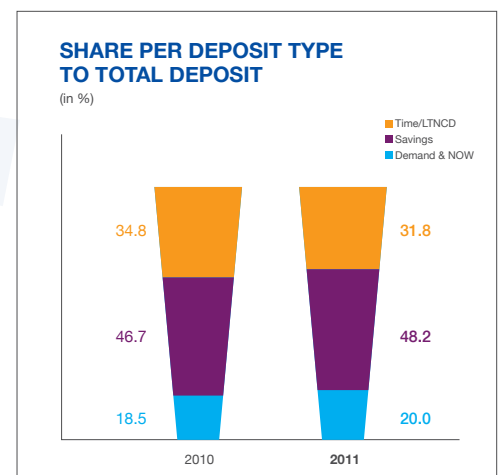
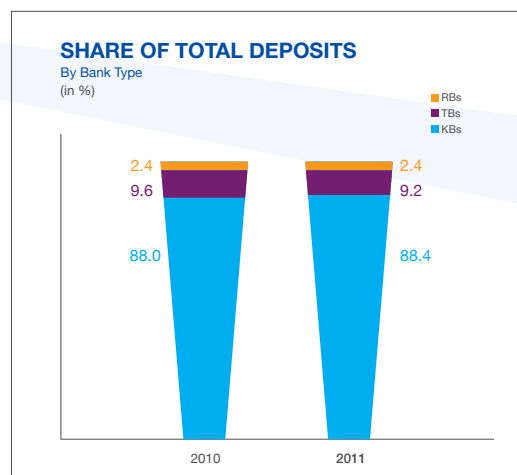
KBs continued to account for the bulk of deposits, with its share increasing to 88.4% from 88.0%. The share of TBs marginally decreased to 9.2% from 9.6%, while the share of RBs also registered a slight decrease to 2.35% from 2.41%.

Per deposit type, Savings deposits still accounted for the bulk of deposits with its share to total deposits growing to 48.2% from 46.7%. On the other hand, the share of Time Deposits and Long Term Negotiable Certificates of Deposits contracted to 31.8% from 34.8%, while the share of Demand and NOW deposits rose to almost 20% from 18.5%.

Asset quality of banks improved further. Asset quality of banks significantly improved as the ratio of non-performing assets (NPAs) to total assets of Philippine banks dropped to 3.8% from 4.3% last year. This reflects banks' initiatives to improve asset quality and prudent lending practices. Non-Performing Loans (NPL) to Gross Loans ratio improved to 3.8% from 4.4%.



Total deposits reached
Php5.4
trillion





Bank's average capital to risk assets ratio rose to 16.9%.

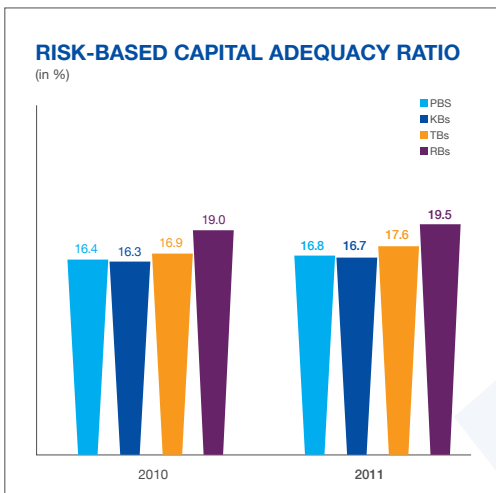
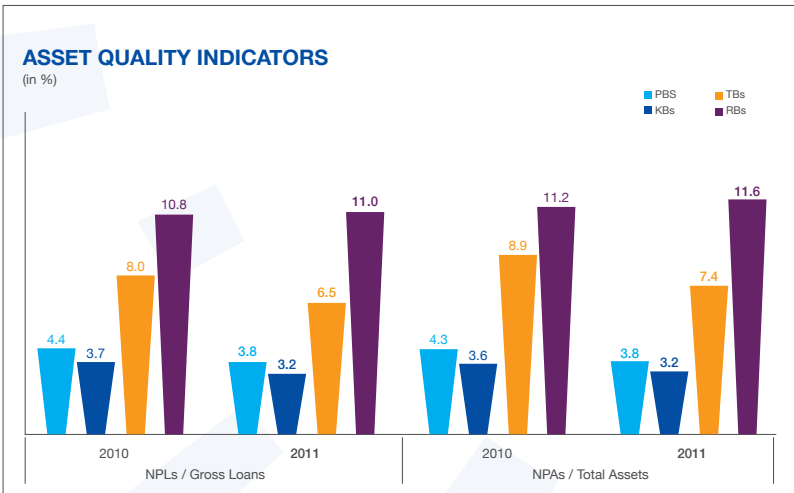
The NPA ratio improved as NPAs fell by 6.3% to Php283.6 billion from Php302.6 billion and total assets expanded by 6.2% to Php7.4 trillion. The NPL ratio also improved with growth in gross loans by 14.0% to Php3.8 trillion and contraction of NPLs by 2.6% to Php141.7 billion.

The improvement in banks' NPA ratio was due largely to KBs whose NPA ratio dropped to 3.2% from 3.6%. The ratio for TBs also improved to 7.4% from 8.9% while the NPA ratio for RBs was slightly up to 11.6% from 11.2%.

Risk-based capital adequacy of banks remained above prudential levels. Risk-based capital adequacy of banks improved as the banking system's average capital to risk assets ratio rose to 16.9% from 16.4% in 2010, above the 10.0% regulatory requirement of the BSP and 8.0% required by the Bank for International Settlements (BIS). The ratio improved to 16.7% from 16.3% for KBs, and 17.6% and 19.5% for TBs and RBs from 16.9% and 19.0%, respectively, in the previous period.

Overall profitability level showed significant growth. Bank profitability was healthier as banks' return on assets (ROA) improved to 1.5% from 1.4% while return on equity (ROE) went up to 12.4% from 12.1%. ROE of TBs improved significantly to 13.3% from 7.0% due to major thrift bank closures during the year; while profitability of KBs and RBs dropped to 12.5% from 12.6% and 8.4% from 10.7%, respectively.

Total profit after tax rose by 19.3% to Php108.4 billion from P90.9 billion on the back of strong net interest income, which grew by 6.3% to Php239.4 billion. Non-interest income posted a slight decline of 0.4% to Php132.9 billion. Net



operating revenue was up 2.7% to Php132.6 billion. Interest expense was slightly up by 0.7% to Php116.4 billion from Php115.5 billion. However, non-interest expense grew 5.3% to Php234.9 billion from Php223.2 billion.

By bank type, TBs' profitability improved significantly as profit after tax grew 111.2% to Php9.5 billion from Php4.5 billion with the closure of banks that dragged profitability in the segment. KBs' profitability after tax expanded 15.5% to Php96.3 billion from Php83.4 billion, while RBs' profits contracted by 14.0% to Php2.6 billion from Php3.1 billion.

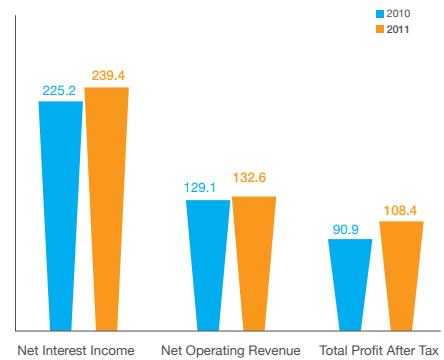
Banking system continued to consolidate. Sustained efforts to strengthen the banking system resulted in the closure of 29 banks in 2011. There were also two banks which merged; while eight banks were involved in four consolidations for the year. Despite the decrease in the number of operating banks, the banking system's operating network, composed of head offices and branches, grew by 2.1% to 8,304 by yearend from 8,132 in 2010.

Philippine banks remained resilient and showed robustness by posting higher profits and stronger balance sheets.

Despite modest economic growth in 2011, the banking sector remained resilient and showed robustness by posting higher profits and stronger balance sheets. With an anticipated upgrade in sovereign credit rating in 2012 due to better economic environment, the banking system is prepared to face greater challenges that lie ahead.

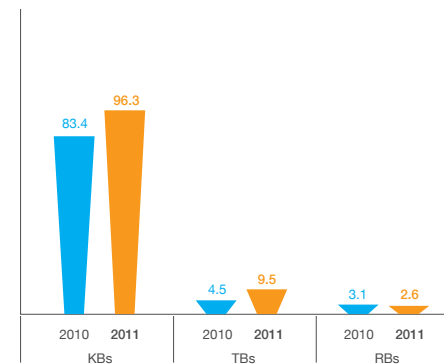
**PHILIPPINE BANKING SYSTEM
SELECTED INCOME INDICATORS**

(in Billion Php)



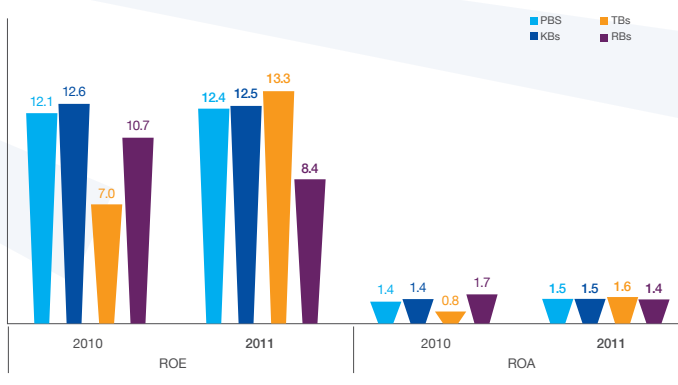
PROFIT AFTER TAX

KBs, TBs, RBs
(in Billion Php)



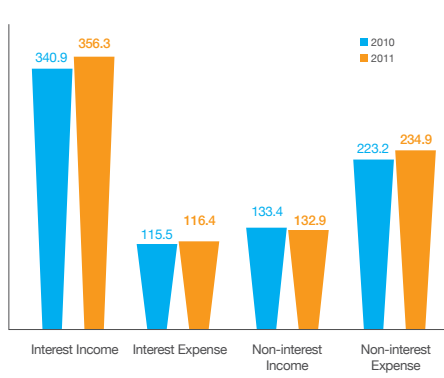
PROFITABILITY INDICATORS

(in %)



**PHILIPPINE BANKING SYSTEM
INCOME AND EXPENSES**

(in Billion Php)



References:

1. Bangko Sentral ng Pilipinas (BSP)
2. National Statistics Coordination Board (NSCB)
3. Philippine Deposit Insurance Corporation (PDIC)





Deposit Insurance



Deposit INSURANCE

The yearend Deposit
Insurance Fund is
97%
of the Insurance
Reserves Target.

Assessment

PDIC assesses member-banks a flat rate of 1/5 of 1% or 20 basis points of their total deposit liabilities. In 2011, total assessment collections reached Php10.1 billion, growing by 9.3% from Php9.2 billion the previous year. This growth outpaced the 4.9% increase in deposits in the banking system.

As in previous years, commercial banks accounted for the lion's share of assessments at Php8.9 billion or 88.4% of the total. Thrift and rural banks accounted for Php929.7 million or 9.2% and Php250.5 million or 2.4%, respectively.

Deposit Insurance Fund (DIF)

The DIF grew to Php76.7 billion from Php64.6 billion last year, following gains in retained earnings of Php2.7 billion and additions to reserves for insurance losses of Php3.9 billion. The DIF is the capital account of the Corporation and principally consists of the Permanent Insurance Fund (PIF) at Php3.0 billion, reserves for insurance losses at Php61.3 billion and retained earnings at Php6.5 billion. It also includes the unrealized gain on sale of investments due to reclassification of accounts amounting to Php5.9 billion.

Excluding the gain attributed to account reclassification, the yearend DIF level is 97% of the Insurance Reserves Target (IRT) estimated at Php72.8 billion as of December 31, 2011.

In April, the FIRST³ Initiative approved the proposal for a technical assistance grant on the Enhancement of the IRT Framework and Amendment to PDIC Charter. The Project entailed the review, validation and enhancement of PDIC's IRT framework, taking into account international best practices and acceptance of major stakeholders, assessment of the viability of measures to ensure/sustain adequacy of insurance reserves; and assistance in drafting necessary amendments to the PDIC Charter. In his final report, the project consultant recommended a fund target of 5% of insured deposits in the banking system to enhance the current methodology of estimating the reserves target. He also identified several measures and legislative proposals that would improve the financial performance of PDIC.

³The Financial Sector Reform and Strengthening (FIRST) Initiative is a multi-donor grant facility that provides technical assistance to promote financial sector strengthening. The World Bank manages the FIRST Initiative on behalf of the donors.



A 3D bar chart with several bars of varying heights, rendered in a dark purple color. A large, thick, black arrow points downwards from the top right towards the center of the chart. The background is a dark purple gradient with abstract, wavy, grid-like patterns and scattered geometric shapes like squares and rectangles in lighter shades of purple and grey.

Risk Assessment & Management



Risk ASSESSMENT & MANAGEMENT

Regulatory Issuances

In its capacity as Co-Regulator of the banking system and as Deposit Insurer, the PDIC promulgates rules and regulations governing bank operations and deposit insurance to promote market discipline and strengthen depositor protection.

Four Regulatory Issuances (RIs) were issued in 2011 as follows: 1) RI 2011-01 on Unsafe and/or Unsound Banking Practices; 2) RI 2011-02 on the Rules and Regulations Governing Deposit Accounts or Transactions Excluded from the Coverage of Deposit Insurance; 3) RI 2011-03 on the Rules Governing Requests for Reconsideration of Denied Deposit Insurance Claims; and 4) RI 2011-04 on the Rules on Net Out of Obligations to Determine Insured Deposit.

RI 2011-01 identified the specific conditions that warrant PDIC examination of banks and the corresponding sanctions on banks which engage in unsafe and unsound banking practices. Sanctions include the issuance of a directive to cease and desist to the erring bank. RI 2011-02 specified and identified bank products not covered by deposit insurance such as a) investment products; b) deposit accounts or transactions which are unfunded, fictitious or fraudulent; c) deposit accounts or transactions emanating from unsafe and/or unsound banking practices; and d) deposits that are determined to be proceeds of unlawful activities.

Meanwhile, depositors with legitimate but denied deposits were given the opportunity to seek reconsideration through RI 2011-03. The reconsideration of denied deposit insurance claims should comply with the conditions and procedures stipulated in said RI. Lastly, RI 2011-04 defined and identified the obligations that could be netted out from the deposit insurance in the event of a bank closure. This was issued for purposes of computing net deposits covered by deposit insurance due a depositor. These RIs were posted at the PDIC website, www.pdic.gov.ph, for ready reference of member-banks and the general public.

Bank Strengthening Initiatives

PDIC initiated a number of bank strengthening programs as well as enhanced existing initiatives to help strengthen the banking system.

Investor-Investee Helpdesk

The Investor-Investee Helpdesk, a match-making and registration facility established to assist banks that are interested to merge and consolidate marked its second year of operation. It has enlisted 34 registrants, 25 of which were investors while nine were investees. Total registrants to the Helpdesk decreased by 17% compared to the 41 registrants as of yearend 2010. The Helpdesk made a total of 86 matches by yearend.

There were two successful matches involving four banks. One of the matched investor-investee availed of incentives under the Strengthening Program for Rural Bank (SPRB) while the transaction for a proposed acquisition is in progress with the BSP as of yearend.

The Investor-Investee Helpdesk made a total of 86 matches by yearend.



The Corporation acted on a total of 8 applications for SPRB.

Strengthening Program for Rural Banks (SPRB)

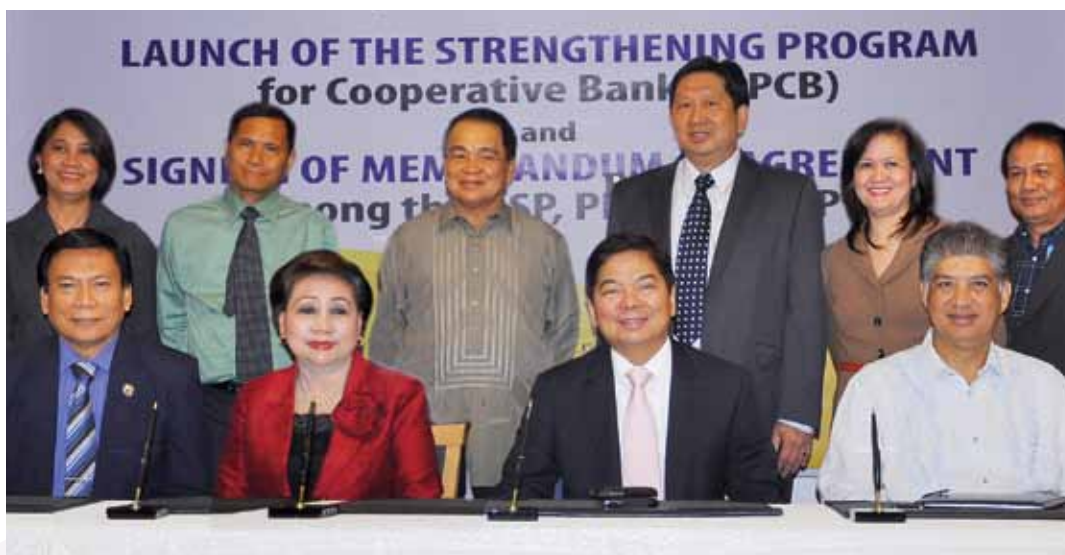
The Strengthening Program for Rural Banks (SPRB), a joint undertaking with the BSP which was launched in August 2010, offers incentives to promote mergers or consolidations of banks. The scheme was designed to encourage eligible strategic third party investors to acquire eligible rural banks. This was aimed at making the rural banking sector more competitive. PDIC support is by way of the grant of financial assistance. The Corporation acted on a total of eight applications for SPRB in 2011. Four applications were approved by the PDIC Board; with estimated amount of financial assistance in the form of preferred shares and direct loan to the STPIs at around Php172.5 million. Of the remaining applications, two were denied and two were under evaluation as of yearend.

Strengthening Program for Cooperative Banks (SPCB)

In response to resolutions filed with the House of Representatives by Rep. Cresente C. Paez and Rep. Jose R. Ping-ay to further enhance the program, PDIC initiated a study during the year to expand the SPRB to cover cooperative banks. On November 16, 2011, the Strengthening Program for Cooperative Banks (SPCB) or SPRB Module II was launched through the signing of a memorandum of agreement among the PDIC, BSP and Land Bank of the Philippines (LBP).



PDIC engages in dialogues with various banking groups to promote its bank strengthening programs.



The Strengthening Program for Cooperative Banks was formally launched through a tripartite Memorandum of Agreement among the PDIC, BSP and LBP.

Bank Examination

Under the PDIC Charter, the Corporation is authorized to examine member-banks. This enables the Corporation to determine the general state of the banks' financial health and identify the risks they pose to the Deposit Insurance Fund (DIF) and the overall banking system. The Corporation examined a total of 64 banks with aggregate estimated insured deposits (EID) of Php11.3 billion in 2011. This is 168% more than the 38 banks examined in 2010 and represents an increase of 214% from the combined EID of Php5.3 billion in 2010.

PDIC also completed a total of 88 Offsite Analysis Reports (OAR), which is 76% over the target of 50 OARs for 2011. The OAR is a valuable pre-evaluation tool used to identify which areas in the CAMELS require more focus in the bank examination process.

In May 2011, PDIC adopted the Standard Operating Guidelines and Instructions (SOGI) on Bank Examination, or the handbook in the conduct of bank examinations. The SOGI prescribes guidelines and procedures in the conduct of bank examination for the protection of depositors.

Financial Assistance

The Corporation is authorized under its Charter to extend financial assistance (FA) to banks that are in danger of closing. With the exception of FA granted under the SPRB, no FA was granted to banks in 2011.

Banks under FA are regularly monitored by PDIC for compliance with the terms and conditions of the FA.

PDIC examined a total of 64 banks with combined estimated insured deposits of Php11.3 billion.

A hand holding a pen over a document with a decorative geometric pattern. The background is a warm, orange-toned image of a hand holding a pen, poised to write on a document. The document contains faint, illegible text. Overlaid on the image is a decorative pattern of semi-transparent, geometric shapes (squares and rectangles) in various shades of gray and orange, arranged in a radial pattern around the center.

Receivership & Liquidation



Receivership & LIQUIDATION

The combined branch network and aggregate deposit amount of two big thrift bank closures posed critical challenges to the Corporation.

As Statutory Receiver of closed banks, PDIC took over 29 banks ordered closed by the Monetary Board comprising of 25 rural banks and four thrift banks. The closed banks had 125 banking units, a significant increase compared to the 25 banks with 60 banking units ordered closed in 2010. For 2011, 16 of the closed banks had head offices located in Luzon, eight in Visayas and five in Mindanao. As of yearend, 18 of these closed banks have been placed under liquidation.

The 29 closed banks placed under PDIC receivership during the year had combined total estimated insured deposits of almost Php13.0 billion involving total estimated insured deposit accounts of 291,656, more than triple the number of insured deposit accounts in 2010 at 96,551.



During bank takeovers, PDIC secures and conducts inventory of the assets of closed banks.

**Banks Closed in 2011**

	Bank Name	No. of Branches / Banking Units	Head Office Location
1	Ibalon Rural Bank (Tabaco, Albay), Inc.	1	Albay
2	Rural Bank of Baler (Aurora), Inc.	1	Aurora
3	Rural Bank of Mapandan (Pangasinan), Inc.	1	Pangasinan
4	Rural Bank of Norzagaray, Inc.	1	Bulacan
5	Rural Bank of Zapote (Las Piñas), Inc.	2	Metro Manila
6	GMA Rural Bank of Cavite, Inc.	9	Cavite
7	Rural Bank of Bingawan (Iloilo), Inc.	1	Iloilo
8	Rural Bank of Manjuyod (Negros Oriental), Inc.	1	Negros Oriental
9	Growers Rural Bank, Inc.	1	Rizal
10	Banco Filipino Savings and Mortgage Bank	62	Metro Manila
11	Rural Bank of Agno (Pangasinan), Inc.	1	Pangasinan
12	Rural Bank of Tampakan (South Cotabato), Inc.	1	South Cotabato
13	Rural Bank of Nabas (Aklan), Inc.	1	Aklan
14	Rural Bank of Tagudin (Ilocos Sur), Inc.	1	Ilocos Sur
15	Rural Bank of Pres. Roxas (North Cotabato), Inc.	1	North Cotabato
16	Mambajao Community Rural Bank, Inc.	1	Camiguin
17	Express Savings Bank, Inc.	4	Laguna
18	Rural Bank of Matanao (Davao del Sur), Inc.	1	Davao del Sur
19	Rural Bank of Garcia-Hernandez (Bohol), Inc.	1	Bohol
20	Bank of Calape (Savings and Mortgage Bank)	2	Bohol
21	Rural Bank of Tarlac, Inc.	2	Tarlac
22	Rural Bank of Indang (Cavite), Inc. (First Reliance Bank)	2	Cavite
23	LBC Development Bank	20	Metro Manila
24	Rural Bank of Mabini (Batangas), Inc.	2	Batangas
25	Rural Bank of Mawab (Davao), Inc.	1	Davao del Norte
26	Rural Bank of Valencia, (Negros Oriental), Inc.	1	Negros Oriental
27	Rural Bank of Angadanan (Isabela), Inc.	1	Isabela
28	Rural Bank of Calubian (Leyte), Inc.	1	Leyte
29	Rural Bank of Jordan (Iloilo), Inc.	1	Guimaras

Unprecedented thrift bank closures

In 2011, the two biggest operational challenges PDIC faced in the takeover and receivership of banks were brought about by the closure of Banco Filipino Savings and Mortgage Bank (Banco Filipino) and LBC Development Bank with branch networks consisting of 62 and 20 units, respectively. Their combined 82 banking units represented 71% of the total banking units taken over in 2011. The number of deposit accounts and transactions and records of these banks with branch network spread all over the country, posed critical challenges to the Corporation. While the said thrift banks closed months apart, large scale operational requirements put to test once again, PDIC's organization and resources. Collectively, the estimated payments for insured deposits in these two thrift banks amounted to Php11.0 billion, or representing 81.4% of the total estimated deposit insurance claims of Php13.5 billion in 2011.

When the Monetary Board decides to place a bank under PDIC receivership, the Corporation is tasked to serve the notice of closure and take over the assets and affairs of the closed bank. As Receiver, the PDIC gathers all the assets of the closed bank; and verifies and validates all bank records. After takeover, priority is given to the generation of the masterlist of deposit liabilities to facilitate claims settlement and payout of insured deposits.

The Corporation also makes a determination on whether the closed bank may still be rehabilitated or otherwise placed in such a condition that it may be permitted to resume business with safety to the depositors, creditors, and the general public. Parties interested to rehabilitate a closed bank are required to submit a rehabilitation plan that meets the parameters of capital strengthening, liquidity, governance; and sustainability and viability. If a determination has been made by the Receiver that a closed bank may no longer be rehabilitated, the Monetary Board orders the PDIC to proceed with the liquidation of the closed bank.

As of yearend, the total number of banks under receivership and liquidation stood at 577, consisting of two commercial banks, 67 thrift banks, and 508 rural banks. Of this total, 22 closed banks were under receivership while 555 closed banks were under liquidation as of yearend. By major island group, closed banks were distributed as follows:

Banks under PDIC Receivership and Liquidation

as of December 31, 2011

Major Region	No. of Closed Banks	Under Receivership	Under Liquidation
LUZON	360	12	348
VISAYAS	122	6	116
MINDANAO	95	4	91
TOTAL	577	22	555

As of yearend, the total number of banks under receivership and liquidation stood at 577.

Tragic Tale OF TWO THRIFT BANKS

Banco Filipino, previously placed under receivership in the 1980s and reopened in the early 1990s, was placed under receivership for the second time on March 17, 2011. With 62 bank offices, 173,480 deposit accounts and total deposit liabilities of Php17.8 billion, it is the bank with the largest network out of the total number of banks ordered closed in 2011.

Given the magnitude of deposit accounts to be serviced, documents to be processed, and transactions to be attended to, the Corporation ably responded to the operational requirements of this large scale operation by mobilizing the entire PDIC organization to speed up payment of deposit insurance claims, fast track operations and assuage distressed depositors. PDIC assigned additional employees to the various banking units of Banco Filipino nationwide. Employees were continuously trained in major areas of operations to provide efficient assistance during receivership and claims operations, in anticipation of big bank failures.

A total of 41 Depositors Forums were successfully conducted nationwide. The Depositors Forum is a venue to explain the procedures and requirements for filing deposit insurance claims. The need to touchbase with depositors through these forums placed a great demand on PDIC's human resources. But the Corporation left no stone unturned to provide exhaustive public service.

Further protecting the interests of small savers, depositors of Banco Filipino were the first to benefit from the waiver for filing of deposit insurance claims up to Php10,000. The expanded protection which took effect for banks closed starting on March 17, 2011, ably benefited about 63% of all Banco Filipino depositors or over 100,000 of them.

The operational challenges posed by Banco Filipino were coupled by appearances of PDIC executives in several fact-finding investigations and hearings called by the Senate and the House of Representatives in aid of legislation, reminiscent of the Congressional hearings participated in by PDIC when the Legacy-affiliated banks failed almost simultaneously in December 2008.

Two decades after its first closure, Banco Filipino's so-called resurrection was again not fully realized and as of yearend, another court battle was looming, resonant of its first closure. While awaiting the resolution of cases filed by Banco Filipino, PDIC maintained that Banco Filipino may not be rehabilitated. The Monetary Board has ordered the Corporation to proceed with the liquidation of Banco Filipino. As of yearend, the PDIC is awaiting the court's decision on these legal cases.

In the midst of the extreme operational and legal challenges to the Corporation brought about by the closure of Banco Filipino, another large-network thrift bank failed in 2011, the LBC Development Bank. Said bank was ordered closed on September 9, 2011, mere months after Banco Filipino was placed under PDIC receivership. Consequently, PDIC had to stretch its resources and manpower to service the closure of two major thrift banks in a row. To attend to depositors' queries and assist them in filing their deposit insurance claims, Helpdesks were set up at the various banking units of LBC Bank. PDIC conducted a Depositors Forum at each of the Bank's 20 banking units.

Initial deposit profile reported by LBC Development Bank to PDIC disclosed an overwhelming 321,516 accounts expected



PDIC executives field questions from the media on the closure of Banco Filipino during a press conference.

to be serviced. However, based on examination, this total considerably dwindled to just 33,191 accounts or about 10% of the initial deposit profile with an estimated hit of Php5.8 billion to the Deposit Insurance Fund and the imminent challenges in operations, on top of what was already brought about by other bank closures.

Further investigations conducted by the BSP and PDIC revealed that LBC Development Bank had been lending huge cash advances to its sister company, LBC Express, to hasten the crediting of Overseas Filipino Worker (OFW) remittances, to benefit their families and beneficiaries. LBC Development Bank suffered the most and was eventually shuttered. Its failure heightened the anxiety of depositors, most of whom rely on the regular remittances of their OFW breadwinners.

Realizing that public awareness is critical during bank failures, public engagement through the media was stepped up during the closures of Banco Filipino and LBC Bank with no less than the PDIC President and designated senior officials granting radio and TV interviews to major broadcast networks to reassure the public that Philippine banks remained sound and stable despite the recent closures, and that the Corporation was capable of paying all valid deposit insurance claims as soon as the examination and validation processes were completed. Media interviews also provided opportunities to explain PDIC's role in protecting depositors and helping maintain financial stability, the claims processes and procedures; and the Corporation's financial literacy advocacy and public awareness campaigns for responsible banking and wise saving.

Hurdling past these challenges was a test of resilience for PDIC and to its systems and operations. PDIC successfully rose to the occasion to provide better public service to the depositors and to help maintain the overall stability of the country's banking system.



During the Depositors Forum, depositors are given the opportunity to raise questions on their deposit insurance claims.



Management of Acquired Assets

The PDIC manages and disposes the assets of closed banks as well as corporate assets. Consistent with the Corporation's pursuit for continuous improvement of business processes in the delivery of its mandate, PDIC procured a Real and Other Properties Acquired (ROPA) Monitoring System during the year. The system shall provide database and automated system to capture and monitor the status and other pertinent information of all corporate acquired assets and closed banks' assets to facilitate efficient management and disposal.

In addition to disposing corporate and closed banks' assets through public biddings and negotiated sales, the PDIC, during the year, participated as an exhibitor in the 6th Housing Fair, an annual exposition on shelter and real estate properties spearheaded by the Housing and Urban Development Coordinating Council (HUDCC) at the SM Megatrade Hall from September 30 to October 2, 2011. The Housing Fair was also the venue used to launch PDIC's Property Finder, a web-based application that provides a convenient way for prospective buyers to browse properties available for sale. After the three-day Fair, 85 prospective buyers had registered with the PDIC while the Corporation successfully sold several properties through negotiated sale.



As part of its asset management and disposal function, PDIC participated in the 6th Housing Fair hosted by the Housing and Urban Development Coordinating Council (HUDCC). PDIC President Valentin A. Araneta, Vice President Jejomar Binay, PDIC Executive Vice President Cristina Q. Orbeta and PDIC Director Rogelio W. Manalo visited the PDIC booth during the opening of the 6th Housing Fair.



To enable prospective buyers to easily access available properties for sale, the Corporation launched the Property Finder during the 6th Housing Fair.



To maximize recovery for the closed banks' creditors, PDIC disposes the banks' remaining assets through public biddings.

Closed Banks' Assets

Management and disposal of closed banks' assets are being undertaken to maximize recovery for creditors and uninsured depositors. These are being pursued by stepping up loan collections from obligations in closed banks as well as disposal of closed banks' ROPA and other assets through the conduct of public biddings and negotiated sales. As a standard procedure, assets not sold through public biddings are disposed via negotiated sale.

In 2011, 113 properties of closed banks with total book value of Php113 million were disposed through negotiated sale generating Php90.9 million and through public bidding raising Php70.8 million. Aggregate proceeds generated from asset and property disposal amounted to Php161.7 million which translated to Php48.7 million in premium.

Meanwhile, intensified loan collection efforts yielded Php545.5 million cash collection during the year, from non-performing loans of 218 closed banks.

Corporate Assets

Proceeds of sale of corporate assets and loan collections in 2011 contributed Php349.3 million to the build-up of the Deposit Insurance Fund.

Proceeds of sale of corporate assets and loan collections in 2011 contributed Php349.3 million to the build-up of the Deposit Insurance Fund.



During the year, a total of 309 ROPA with combined minimum disposal price of Php755.6 million were bidded out. Through public bidding and negotiated sales, a total of 41 assets were sold at total disposal price of Php167.9 million, of which Php157.5 million were on cash basis.

Actual cash generated from sales of ROPA through public bidding and negotiated sales, collection of assigned past due sales contract receivables, rentals, dividends and other income amounted to Php176.5 million. Further, 93 corporate non-performing loans (NPLs) with aggregate book value of Php3.4 billion, representing 27.4% of the total NPL portfolio of Php12.6 billion were resolved through restructuring, compromise settlements and liquidation of collaterals. This resulted to total cash collections of almost Php3.0 billion.

In support of the Comprehensive Agrarian Reform Program (CARP), the PDIC endorsed to the Department of Agrarian Reform (DAR) a total of 100 agricultural properties of closed banks and 46 corporate agricultural properties for coverage under CARP. These comprised properties consisting of more than five hundred hectares of land. The PDIC's endorsement is aimed at fast-tracking the CARP coverage of said agricultural properties and hastening the distribution to qualified agrarian reform beneficiaries.

Asset Distribution

PDIC is likewise mandated to settle claims of the banks' creditors, subject to the approval by the Liquidation Courts and according to the order of preference and concurrence of credits provided by the Philippine Civil Code.

Preparatory to the creditors' settlement process, the PDIC prepares the Project of Distribution (POD) for each closed bank. The POD specifies the distribution plan of a closed bank's assets and is submitted to the Liquidation Court for approval. The approval by the court of the POD allows the PDIC to distribute the closed banks' assets to settle the bank's liabilities and begin the winding-up of the affairs of the closed bank. The immediate completion of PODs not only facilitates recovery of the PDIC's subrogated claims but also directly benefits the closed bank's creditors and uninsured depositors.

There were 13 final projects of distribution (FPODs) approved by the President as of yearend, two of which were filed with the Liquidation Courts bringing to 25 the total FPODs filed with the courts. Meanwhile, FPODs approved by the Liquidation Courts stood at 37 during the year, 16 of which were filed in 2011 while 21 were filed with the Liquidation Courts in previous years.

The PDIC distributed Php192.4 million in assets to creditors of 67 banks ordered closed prior to 2008, or 82% of the Php234.2 million targeted for distribution. The balance remained unclaimed as of end-2011 and the creditors' right to claim will expire in the 4th quarter of 2012. Creditors have three years from receipt of Notice of Payment to enforce their claims against the assets of closed banks. Beyond the prescribed period, the PDIC will report the unclaimed assets with the Bureau of the Treasury for escheat.

As of yearend, the PDIC had distributed a total of Php10.7 billion to various creditors of closed banks consisting of Php6.6 billion in cash and Php4.1 billion in assets. This represented a 5% increase from the Php10.2 billion distributed as of yearend 2010 and accounted for 93.8% of the total assets approved for distribution amounting to Php11.4 billion.

Total claims of the government sector classified as preferred creditors amounted to almost Php10.1 billion.

**Php10.7
billion**
were distributed to
various creditors of
closed banks.

Assets Distributed
as of December 31, 2011

Creditors	Nature of Claim	In Million Philippine Peso (Php)		
		Cash	Kind	Total
PDIC	Receivership and Liquidation Expenses	417.68	18.24	435.92
	Subrogated Claims	1,256.08	275.15	1,531.23
	Sub-total	1,673.76	293.39	1,967.15
BSP	Rediscounting, Emergency Loans, Penalties, Fees	746.04	426.75	1,172.79
Other Government Agencies	Central Bank-Board of Liquidators	1,938.22	2,318.46	4,256.68
	Bureau of the Treasury	1,069.96	954.83	2,024.79
	Bureau of Internal Revenue	625.34	55.41	680.75
	Asset Privatization Trust	2.96	5.10	8.06
	Sub-total	3,636.48	3,333.80	6,970.28
Other Creditors	Uninsured Deposits, Labor Claims, etc.	489.96	65.36	555.32
	TOTAL	6,546.24	4,119.30	10,665.54

Receivership and Liquidation Systems and Processes

The Receivership and Liquidation Sector (RLS) stepped up its efforts to improve its processes and systems to increase the Corporation’s effectiveness in delivering its mandate as receiver and liquidator of closed banks. These undertakings include the realignment of the sector and the formulation and implementation of guidelines and procedures on receivership and liquidation and asset management.

The realignment of the RLS was a product of its continuing business process review and improvement. It is intended to focus on liquidation and improve risk management and internal controls. The Sector is divided into four groups, namely: Receivership and Bank Management (RBMG); Asset Management and Disposal (AMDG); Loans Management (LMG); and Receivership and Liquidation Support (RLSG).

The RBMG is tasked to handle the takeover of closed banks and receivership operations, evaluate rehabilitation plans, and manage the liquidation process until the termination and winding up of the books and affairs of the closed banks. The AMDG conducts public biddings and the evaluation of bids, as well as the management of ROPA of the PDIC and closed banks. The LMG collects loans and other receivables to ensure maximization of collections. Meanwhile, the RLSG is in charge of providing administrative support services to RLS, including management of closed bank records, and monitoring of collections, budget and funds-held-in-trust.

The Corporation completed four guidelines on receivership and liquidation in 2011, namely the write-off of corporate and closed banks’ assets, additional guidelines on asset disposal, policy on handling, inventory and valuation of paintings and artworks, and records management policy. There were also initial efforts toward the completion of the Standard Operating Guidelines and Instructions (SOGI) on asset administration and the revision of the Policy on Receivership and Liquidation Expense Charging.

Procedures on takeover and receivership were also enhanced. These include improvements in Receivership Report formats and coverage, pre-takeover processes and documentation, preservation, valuation and disposition of paintings; fire insurance coverage for closed banks’ assets; and preparation of annual budget for closed banks.

Outsourcing of specific receivership activities was also initiated during the year including independent audit work on closed banks and property appraisal to promote operational efficiency.

The Liquidation courts approved 37 final projects of distribution during the year.





Claims Servicing



Claims SERVICING

Enhancements for Systems and Processes

The Corporation continued to adopt measures to enhance its processes and systems, particularly in expediting the settlement of deposit insurance claims.

The PDIC passed the first of three ISO surveillance audits on its Quality Management System for claims settlement operations in 2011, as requisite in the ISO 9001:2008 certification awarded to the Corporation in June 2010. It was conducted by the Certification International Philippines, Inc. (CIP), without findings of non-conformity.

Beginning March 17, 2011, the PDIC expanded the coverage of deposits eligible for automatic payment from Php5,000 to Php10,000.⁴ Depositors with balances of Php10,000 and below without any obligations to the closed banks and have complete and updated addresses in the banks' records, can receive their deposit insurance payment through registered mail without the need to file a claim.

Moving forward, the Corporation looks forward to broadening the coverage for automatic payments to benefit the depositing public, especially the small account-holders. It will also explore ways to expedite the delivery of payment to depositors.

PDIC passed the first of **3** ISO surveillance audits on its quality management system for claims settlement operations.



PDIC personnel validates deposit insurance claims during onsite claims settlement operations.

⁴From January 2010 to March 16, 2011, the requisite filing of claims for valid accounts with balances of Php5,000 and below was waived.



**More small
accountholders
benefitted from the
automatic payment
due to increased
ceiling to Php10,000.**

Insurance Payouts

As of yearend, PDIC paid an aggregate of Php51.3 billion in deposit insurance claims comprising 2.1 million accounts since 1970. About Php39.7 billion of the said amount involved 1.9 million accounts that were paid during claims settlement operations until 2010. The remaining Php11.6 billion of the total claims paid covering 226,970 accounts were referred to claims settlement operations commencing 2011. This included payments for two banks closed in December 2010 where claims settlement operations started only in 2011, amounting to Php568.0 million covering 3,507 accounts. Meanwhile, payments for claims in 26 closed banks in 2011 where claims settlement operations also started in the same year, amounted to Php11.0 billion involving 223,463 accounts.

Payment of Small Valid Accounts

The increase in the coverage of deposits for automatic payment from Php5,000 to Php10,000 benefitted more small accountholders. Under this payment system, accountholders with valid deposit balances of Php10,000 and below need not file a claim for payment.



Public assistance personnel attend to queries of depositors during the filing of claims.



Documentary requirements submitted by depositors are thoroughly examined to ensure that PDIC pays the right depositor the right amount.

For the 28 banks that started claims settlement operations in 2011, the PDIC paid almost 132,536 valid accounts with balances of Php10,000 and below for a total amount of about Php247 million. These valid small accounts comprised 43.3% of the estimated insured deposit accounts.

Under the automatic payment scheme, depositors received payments for their valid deposits in the form of postal money orders (PMOs) through registered mail. These PMOs may be encashed with the Land Bank of the Philippines (LBP) branch or postal office nearest to the depositors' residences. The entire 300 branch network of LBP nationwide and the 2,000 postal offices all over the country may encash these PMOs. The measure made it convenient for depositors to receive their deposit insurance without filing their claims. It also provided immediate relief to depositors by affording them easy and early access to their deposits insurance.

**The failures of
Banco Filipino and
LBC Dev't Bank
undeniably demanded
more manpower
and resources.**

Settlement of Filed Claims

As a policy, depositors with deposits balances greater than Php10,000 are required to file their claims during claims settlement operations. For the closed banks that started claims settlement operations in 2011, the PDIC paid 94,434 insured accounts amounting to Php11.4 billion. The valid claims consisted 87% of the total received claims of 108,704; and only about 31% of the estimated insured deposit accounts of 306,412.

Due to the number of branches and magnitude of deposit accounts of the 26 banks that closed simultaneously or successively, the Corporation's resources were stretched to keep up with the challenges. While almost the entire PDIC workforce was still in the middle of the receivership and claims settlement operations of the 62-unit Banco Filipino Savings and Mortgage Bank, another thrift bank, LBC Development Bank, with 20 banking units, closed a few months after. The twin episodes of these thrift bank closures in 2011, combined with some rural banks that failed within the period, undeniably demanded for more manpower and resources.

In the settlement of deposit insurance claims, over 90% was paid during field operations using cash or check payment schemes. The rest are continued to be paid through home office claims settlement (HOCS) either through checks sent via registered mail, or by cash-over-the-counter (COTC) through the LBP. Close coordination with the Philippine Postal Corporation and the LBP in the execution of the payment facilities allowed the depositors to easily access their deposit insurance proceeds.



PDIC personnel assist depositors in filing their deposit insurance claims.

Claims Settlement Operations (CSO)

as of December 31, 2011

Banking Units	Particulars	Closure Date	Start of Payout	Deposit Liabilities		Estimated Insured Deposit		Claims Filed		Without Claims Filed ^a		Insured Deposits Paid (IDP)		Total IDP	
				Acct	Amount	Acct	Amount	Acct	Amount	Acct	Amount	Acct	Amount	Acct	Amount
1,490	Banks started CSO prior to 2011			6,324,586	67,089,796,399.44	2,682,736	46,207,703,988.04	1,793,246	46,814,989,352.50	139,256	82,951,822.09	1,750,498	39,645,505,145.70	1,889,570	39,728,456,697.77
124	Banks started CSO in 2011			306,412	27,048,897,761.02	306,412	13,549,174,554.93	108,704	21,531,025,091.65	132,536	247,434,111.50	94,434	11,362,982,310.30	226,970	11,610,416,421.80
1	First Country RB (Pasig), Inc.	12/10/10	02/15/11	16,357	679,232,097.13	16,357	604,043,025.21	2,933	637,335,428.50	483	366,612,47	2,702	562,149,186.24	3,185	562,517,798.71
2	RB Sta. Rosa (Nueva Ecija), Inc.	12/10/10	01/26/11	705	77,35,130.40	705	7,735,130.40	211	7,437,897.39	142	90,460.96	180	5,418,992.33	322	5,509,453.29
3	Ibalon Rural Bank (Tobato, Albay), Inc.	01/14/11	02/08/11	474	22,777,276.36	474	22,752,592.62	199	22,703,568.23	171	88,109.31	155	21,608,499.61	326	21,696,608.92
4	Rural Bank of Baler (Aurora), Inc.	01/14/11	01/19/11	176	5,384,887.97	176	5,384,887.97	99	4,359,426.67	47	58,036.72	98	4,006,623.25	145	4,064,659.97
5	Rural Bank of Mapandan (Pangasinan), Inc.	01/28/11	03/09/11	1,685	3,195,901.76	1,685	3,195,901.76	62	2,016,109.68	705	295,107.57	56	1,847,536.49	761	2,142,644.06
6	Rural Bank of Norzagaray (Bulacan), Inc.	01/28/11	03/16/11	1,403	123,733,643.04	1,403	88,768,544.12	587	107,618,263.34	477	346,112.86	565	80,001,619.34	1,042	80,347,732.20
7	Rural Bank of Zapote (Las Pintas City), Inc.	01/28/11	03/11/11	3,230	619,688,668.27	3,230	352,302,905.59	2,291	606,957,108.87	130	105,579.22	1,625	275,894,965.65	1,755	276,000,544.87
8	GMA Rural Bank of Cavite, Inc.	02/04/11	03/07/11	30,288	649,800,863.06	30,288	568,456,643.17	7,947	621,453,129.59	17,232	32,283,635.24	6,767	495,747,005.54	23,999	528,030,640.78
9	Rural Bank of Bingawan (Iloilo), Inc.	02/04/11	02/21/11	287	5,444,880.38	287	5,424,081.70	170	3,986,584.36	25	40,647.97	164	3,789,656.19	189	3,830,304.16
10	Rural Bank of Manjuyod (Negros Oriental), Inc.	02/18/11	03/09/11	327	3,686,891.58	327	3,686,891.58	176	3,092,164.35	90	47,534.86	158	2,641,088.34	248	2,688,623.20
11	Growers Rural Bank, Inc.	03/04/11	04/20/11	1,180	27,423,732.10	1,180	27,415,831.74	92	26,198,817.39	566	461,040.18	74	26,180,308.80	640	26,641,348.98
12	Banco Filipino Savings and Mortgage Bank	03/17/11	03/28/11	1,734,800	17,843,872,239.78	1,734,800	8,038,304,369.51	67,934	13,968,822,961.78	84,990	169,556,501.73	59,196	6,718,806,138.09	144,186	6,888,362,639.82
13	Rural Bank of Agno (Pangasinan)	03/28/11	05/02/11	2,471	18,942,737.18	2,471	18,899,893.06	309	15,240,926.83	1,327	639,323.16	267	11,900,345.76	1,594	12,539,668.92
14	Rural Bank of Tampakan (Socotabato), Inc.	04/01/11	06/21/11	1,890	47,820,461.72	1,890	29,850,016.32	379	25,239,219.74	749	1,113,208.90	146	8,816,173.81	895	9,929,382.71
15	Rural Bank of Nabas (Aklan), Inc.	04/08/11	05/26/11	3,116	31,910,832.70	3,116	31,154,273.29	552	28,779,740.71	1,987	1,554,506.61	524	26,773,390.19	2,511	28,327,896.80
16	Rural Bank of Tagudin (Ilocos Sur)	04/08/11	06/30/11	2,537	61,844,959.41	2,537	61,526,875.11	846	54,692,953.57	1,559	2,973,157.78	802	53,509,841.87	2,361	56,482,999.65
17	RB Pres. Roxas (N Cotabato), Inc.	06/03/11	07/28/11	207	1,101,011.95	207	1,101,011.95	30	957,959.09	85	86,551.39	11	364,310.80	96	450,862.19
18	Mambajao Community Rural Bank, Inc.	06/21/11	08/08/11	581	12,063,359.69	581	8,584,780.62	62	7,652,571.23	275	269,511.26	52	6,036,888.85	327	6,306,400.11
19	Express Savings Bank, Inc.	07/08/11	08/16/11	2,439	513,680,645.20	2,439	114,821,732.75	989	140,258,934.97	1,090	3,197,279.45	935	90,649,400.65	2,025	93,846,680.10
20	Rural Bank of Matanao (Davao del Sur), Inc.	07/15/11	08/16/11	343	4,496,532.22	343	4,478,106.40	57	4,022,010.69	113	241,742.20	56	3,885,218.51	169	4,126,960.71
21	Rural Bank of Garcia-Hernandez (Bohol), Inc.	07/24/11	09/13/11	734	14,920,000.21	734	14,505,062.92	108	7,618,549.24	443	610,518.45	97	6,959,613.80	540	7,570,132.25
22	Bank of Calape SMB	07/29/11	10/13/11	786	6,875,081.43	786	6,251,377.76	236	4,753,718.47	225	4,603,787.42	225	4,603,787.42	225	4,603,787.42
23	Rural Bank of Farac, Inc.	07/29/11	09/30/11	5,917	156,479,849.79	5,917	152,322,544.63	1,022	144,628,204.39	3,628	4,341,444.86	977	134,935,347.90	4,605	139,276,792.76
24	Rural Bank of Indang (Cavite), Inc. (First Reliance Bank)	08/18/11	10/05/11	5,607	154,528,825.81	5,607	146,131,735.11	1,910	129,028,838.54	3,083	7,005,305.23	1,746	113,355,828.40	4,829	120,361,133.63
25	LBC Development Bank	09/09/11	11/03/11	33,191	5,786,356,528.43	33,191	2,989,052,298.03	18,759	4,829,610,244.07	6,952	16,444,299.94	16,146	2,586,858,311.67	23,098	2,603,302,611.61
26	Rural Bank of Mabini (Batangas), Inc.	09/09/11	10/26/11	14,232	190,620,756.89	14,232	190,184,556.23	744	126,529,759.96	4,686	3,671,600.57	710	116,242,230.80	5,396	119,913,831.37
27	Rural Bank of Mawab (Davao), Inc. ²	09/23/11	11/02/11	1,721	21,996,947.10	1,721	20,597,616.85	953	842,102.32	953	842,102.32	-	-	953	842,102.32
28	Rural Bank of Angadanan (Saba), Inc. ²	11/28/11	12/22/11	1,048	33,283,019.46	1,048	32,241,868.53	548	702,180.29	548	702,180.29	-	-	548	702,180.29
1,614	GRAND TOTAL			6,630,998	94,138,694,160.46	2,989,148	59,751,878,542.97	1,901,950	68,346,014,444.15	271,792	330,385,933.59	1,844,932	51,008,487,456.00	2,116,724	51,338,873,389.59

^{1/} Includes paid accounts where filing is waived for valid deposit balances of a) P5,000 and below effective for banks closed from January 1, 2010 to March 16, 2011 and b) P10,000 and below for banks closed from March 17, 2011 onwards.

^{2/} CSO pertains only to initial payment of valid deposit balances greater than P10,000 and below where filing is waived. Filing of claims for deposit balances greater than P10,000 to start in 2012.





Public Assistance



Public ASSISTANCE

**Depositors Forums
serve as a quick
response action desk to
depositors' queries and
requests for assistance.**

As the public assistance arm of the Corporation, the Public Assistance Department (PAD) is mandated to spearhead the conduct of Depositors Forums during bank takeovers and serve as a quick response action desk to depositors' queries and requests for assistance. Depositors' requests for information, status on their claims and other assistance are dealt with through letters, e-mails, phone calls and visit to the Helpdesk.

Depositors Forum

Depositors Forums are conducted to address issues during bank closures. This is the venue where PDIC explains the requirements and procedures for filing deposit insurance claims. Depositors are also taught how to fill out Claim Forms during the Forum. Queries are also addressed during this activity. In 2011, a total of 97 Depositors Forum were conducted nationwide covering 29 bank closures involving 125 banking units. Banking units which are near each other are clustered together in order to reach more depositors at the same time.



Depositors Forums are immediately conducted to address depositors' queries and anxiety.



To help depositors better understand the claims filing process, the Corporation produced an audio-visual presentation (AVP) entitled, "Gabay sa Pagpa-file ng Claim." The AVP will be adopted in the conduct of Depositors Forums starting next year. The video will guide the depositors on the step-by-step procedure of the PDIC's claim processing and settlement operations.

Client Feedback

In line with the continual improvement principle under the ISO 9001:2008 certification on PDIC's claims settlement operations, the Corporation conducts a monthly Client Feedback Survey to measure client satisfaction. Depositors who personally visit the Helpdesk and the Claims Counter are requested to give feedback on how the PDIC has served them. The results of the survey are reported to management and enable the PDIC to identify areas for improvement. The survey instrument has undergone review during the year and will be further enhanced next year.



PDIC's *Gabay sa Pagpa-file ng claim* will soon be adopted during the Depositors Forum.



Public assistance personnel spearheads the conduct of Depositors Forum.

Moving forward, baseline levels on customer satisfaction for the conduct of Depositors Forum and claim settlement operations will be pursued to measure client satisfaction and identify areas for improvement during said activities.

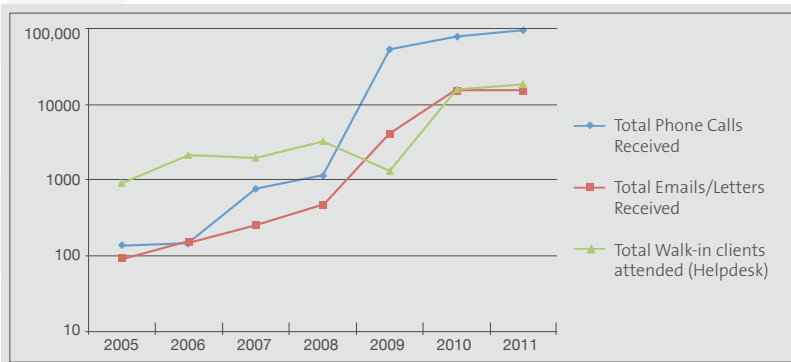
Depositor Assistance

Depositor queries increased by 15.8% from 113,370 in 2010 to 131,283 in 2011 following 29 bank closures involving 125 banking units.

In 2011, the PAD received and attended to total phone calls of 97,041 or a 19.1% increase compared to 81,468 in 2010. Total emails/letters replied to reached 15,752, a modest increase of 3% from 15,293 in 2010, notwithstanding the increase in depositors. Walk-in clients attended to at the Helpdesk climbed to 18,490 or 11.3% more than the 16,609 in the previous year.

Depositor queries increased by 15.8% from 113,370 in 2010 to 131,283 in 2011.

PUBLIC ASSISTANCE RENDERED (2005 – 2011)



The procedures and requirements for filing deposit insurance claims are thoroughly explained to the depositors.

A close-up, blue-tinted photograph of a hand holding a wooden gavel. The gavel is positioned diagonally across the frame. The background is dark and textured, possibly a book cover or a similar surface. The overall mood is professional and authoritative.

Legal Advocacy & Litigation



Legal ADVOCACY & LITIGATION

CBLA aims to protect the interests of depositors and creditors of closed banks by providing a mechanism for an orderly and prompt bank liquidation.

Closed Bank Liquidation Act

After the amendments of the PDIC Charter in 2009, the Corporation pursued additional legislative reforms to strengthen PDIC's authority as receiver and liquidator of closed banks. A number of consultative meetings with the Bangko Sentral ng Pilipinas (BSP), bank associations and members of the Legislature were conducted to gather inputs and support for the proposed law. A bill for the enactment of a Closed Bank Liquidation Act (CBLA) has been filed in the Senate. Continuous efforts were then made to revise and improve the language to reflect lessons learned from recent bank closures. The CBLA is envisioned as a comprehensive law that will govern the liquidation of closed banks in the Philippines consistent with international best practices. Further, CBLA aims to protect the interests of depositors and creditors of closed banks by providing a mechanism for an orderly and prompt bank liquidation through a seamless transition from bank closure to liquidation. The CBLA is also designed to streamline the liquidation process for closed banks.

The CBLA provides for additional modes of liquidation such as bridge banking and an enhanced purchase of assets and assumption of liabilities. The adoption of these modes of liquidation may help lessen the disruptions in the banking system due to bank closures and reduce resolution costs incurred under the present system of liquidation.

Petition for Assistance in the Liquidation of Closed Banks

During the year, the PDIC submitted to the Supreme Court for its consideration and possible adoption a draft Rules of Procedure for Petitions for Assistance in the Liquidation (PAL) of Closed Banks. These rules are expected to expedite the liquidation proceedings of PALs pending before various Regional Trial Courts nationwide, and facilitate PAL proceedings in the future.

Filing of Cases

In 2011, PDIC filed a total of 20 cases with the Department of Justice (DOJ) and with various Regional Trial Courts against the owners, officers and employees of Legacy banks⁵ and various closed banks.

In 2011, there were 10 cases filed with the DOJ by the Corporation against bank officials of Legacy and non-Legacy Banks. Seven of these cases involved the Legacy banks for fictitious loans (2); unsafe & unsound banking practices (1); syndicated estafa (3) and large scale estafa (1). Meanwhile, three syndicated estafa cases were filed against officials of non-Legacy banks. Of the total 10 cases filed, six cases were for resolution as of yearend while preliminary investigations for four cases were ongoing.

Meanwhile, the PDIC pursued four cases filed with various courts against officials of Legacy banks in 2011 involving syndicated estafa (1), refusal to turn over records (2), and estafa (1). Moreover, a total of six cases involving non-Legacy banks were pending with various courts for: qualified theft (1), estafa (2), unsafe & unsound banking practices (1), falsification of commercial documents (1), and violation of Sec. 21 (f) (10) of the PDIC Charter (1).

As of December 2011, the PDIC had filed a total of 87 cases on bank frauds, anomalies and irregularities. Forty-seven of these are pending with the DOJ with 22 cases related to the Legacy banks. Pending with various Metropolitan and Regional Trial Courts as of yearend were 37 bank fraud cases, of which nine were attributed to Legacy cases and 28 involved other closed banks. There was a pending case each before the Supreme Court, Court of Appeals and the Office of the Ombudsman.

The Corporation's pursuit for legal intervention serves as a warning that the PDIC shall not tolerate wayward bank practices that pose a threat to the Deposit Insurance Fund and to the stability of the country's banking system.

⁵The Legacy banks consisted of 12 affiliated banks ordered closed by the Monetary Board almost simultaneously in December 2008. The failures of the Legacy banks brought fear and anxiety to over 100,000 depositors nationwide. These almost simultaneous closures were unprecedented in Philippine banking history. The Legacy banks held an estimated Php14.0 billion in deposits in about 135,000 accounts in 48 banking units spread all over the country.



Support Infrastructure



Support INFRASTRUCTURE

Operations sectors underwent restructuring and realignment of functions to enhance work efficiency and productivity.

Organizational and Manpower Development

The operations sectors of the Corporation underwent restructuring and realignment of functions to increase efficiency and productivity. These included the Receivership and Liquidation Sector; Examination and Resolution Sector; and the Deposit Insurance Sector.

In line with improving the Corporation's operations, PDIC also implemented the revised Performance Management System (PMS) for performance year 2011, as approved by the Board of Directors on July 27, 2011, and by the Civil Service Commission (CSC) on December 14, 2011. The new PMS aims to improve the competency of the rank-and-file and officers in delivering quality public service. It also added the factors of customer focus and office discipline to the list of critical factors, in addition to the current five core values of integrity, professionalism, excellence, teamwork and respect for all people.

In support of its commitment to the APEC Financial Regulators Training Initiative (APEC-FRTI), the PDIC actively participates in the various training programs and collaborations of the Initiative either as resource persons or participants.

The APEC-FRTI was established in May, 1998 to strengthen financial supervision and regulation in the region by enhancing the analytical and technical capacity of bank supervisors and securities regulators. The APEC FRTI provides a sustainable, efficient, cost-effective training structure for junior and mid-level staff of financial supervisory and regulatory agencies and stock and derivative exchanges. Two Advisory Groups were formed, comprised of bank supervisors and securities regulators from member economies to steer the implementation of the Initiative by deciding on training programs based on the evolving needs and priorities identified by the members; the relevance of topics to core financial supervisory and regulatory functions; and feedback from evaluations and surveys conducted. Executive Vice President Cristina Q. Orbeta represents the PDIC to the Advisory Group composed of bank supervisors.



PDIC officers represent the Corporation during the 2011 APEC-FRTI Training.





In-house trainings were conducted to further empower the PDIC workforce.

Various in-house training programs were conducted to enhance client servicing skills of the personnel.

During the year, PDIC officers and staff attended as participants and observers to the APEC-FRTI Regional Seminars on bank analysis and examination school; and risk management and internal controls held in April and May 2011, respectively.

To continuously improve the quality of its public service, PDIC conducted various in-house training programs to enhance the client servicing skills of its personnel and frontliners in support of the ISO 9001:2008 Certification of the Corporation for its quality management system in claims settlement operations. These training programs were designed to enhance the employee's public service delivery and work-life balance.

Programs under the public service thrust were directed towards skills development and knowledge-building. One of the programs under skills development was the Customer Service Program that aimed to hone employee's skills in providing world-class service to internal and external clients. In addition, two batches for the Seminar on Takeover Execution and Protocols were also organized for frontliners to enhance their knowledge about the new procedures during bank takeover. A seminar on Professional Image Enhancement was likewise conducted for PDIC officers.

Consistent with the continual improvement principle under the ISO Quality Management System, a seminar on Quality Workplace through the 5S on Good Housekeeping was also conducted for the personnel to instill in them the value of effective organization in the workplace and simplification techniques to improve efficiency in the work environment.

The Corporation also initiated knowledge-building training activities such as the seminar on Philippine Financial Reporting Standards (PFRS) to better equip its employees with the latest knowledge relevant to their line of work, as well as the core principles of the PFRS. The PFRS is the new set of Generally Accepted Accounting Principles issued by the Accounting Standards Council in response to the revised International Financial Reporting Standards and International Accounting Standards issued by the International Accounting Standards Board.

To promote a healthy work and life balance, PDIC personnel participated in Gender Sensitivity seminars and various wellness programs. The Gender and Development trainings included the CSC-facilitated orientation on the Magna Carta of Women, and the Gender Sensitivity Training and workshop on Women Economic Empowerment Indicators by the Philippine Commission on Women.

The wellness programs included health and medical activities like vaccination for employees and their dependents, quarterly blood sugar and cholesterol screenings, annual physical examination, skin management; and body age and bone density screenings.

Formulation/Revision of Guidelines and Procedures

The PDIC finalized 15 Standard Operating Guidelines and Instructions (SOGIs). These included SOGIs that support operational efficiency such as Liquidity Management and Liquidity Contingency Planning, Bank Examination, and Outsourcing for Corporate Projects. Others were intended to standardize processes and promote more effective management of manpower and office resources like the PDIC Advertisements, IT Disaster Incident Response, IT Incident Management, Service Level of Information Technology, Probationary Period for Permanent Appointment, Reemployment, Grant of Uniform/Clothing Allowance, Corporate Property, Equipment and Facility Allocation, Physical Security for PDIC and Closed Banks. The SOGIs on Internal Audit and Internal Audit Self-Assessment including Approving/ Signing Authorities were passed to contribute to the strengthening of corporate governance.

Enhancement of Information Technology Systems

A major information technology project was the Server Virtualization Project, undertaken during the year with one of the top system integrators, ePLDT, in joint venture with eBizolutions and Equicom Inc. Server Virtualization is the pooling together of hardware resources consisting of multiple physical servers to form one big virtualized environment. The Project is expected to address the current volume of servers being maintained by the Corporation, work space constraints and the need to improve the server architecture to address increasing requirements of the workforce resulting to reduction in hardware maintenance costs and risk of system downtime; and increased efficiency and enhanced productivity.

The development of the Integrated Financial System (IFS) designed to replace the current semi-automated accounting and treasury processes and to increase operational efficiency, was also started during the year.

The Corporation purchased a Business Intelligence (BI) tool to expedite the preparation of reports for operations and management decision-making. The BI tool was initially applied in the generation of offsite risk rating of banks and aggregate deposit data and resulted to the timely generation of offsite risk rating data from semestral to quarterly basis.

Meanwhile, close to completion at yearend was the improved version of the Claims System. Migration of data, documentation, and system integration of all modules of the Claims System were targeted for completion by 2012. Enhancements were also effected during the year to a major corporate system, the Bank Performance Management System, in order to generate timely financial and bank reports. The Electronic Filing, Archiving, and Retrieval System (EFARS) was also enhanced to improve efficiency. The EFARS is aimed at automating the filing, archiving, and systematic indexing of documents to enable easy retrieval. As of yearend, the total number of document pages uploaded to the EFARS reached 18.2 million.

Major IT systems were developed and enhanced to increase efficiency and productivity.



The PDIC partnered with ePLDT, eBizolutions and Equicom Inc. for the Server Virtualization Project, one of the Corporation's milestone undertakings in information technology improvements.



Advocacy & Institutional Relations



Advocacy & INSTITUTIONAL RELATIONS

BAWS aims to educate depositors on responsible banking by propagating the Seven Habits of a Wise Saver.

Be A Wise Saver Campaign

PDIC actively pursued fruitful collaboration with stakeholders through its continuing advocacy on responsible banking and wise saving called the “Be a Wise Saver” (BAWS) campaign.

On the third year of the advocacy campaign, PDIC organized BAWS Roadshows in various parts of the country to deliver the message of the campaign to targeted audience. BAWS aims to educate depositors on responsible banking by propagating the Seven Habits of a Wise Saver. It also promotes the importance of saving as well as deposit insurance.



Roadshows for the Be A Wise Saver Campaign were conducted in various universities, colleges and local government units.

Around 97% of respondents during the BAWS roadshows appreciate the mandate of PDIC.

In 2011, the PDIC, together with its institutional partners, the BSP, the Bankers Association of the Philippines, the Chamber of Thrift Banks, the Rural Bankers Association of the Philippines, and the Bank Marketing Association of the Philippines, delivered lectures to target audience on how to save wisely; on choosing the right bank and banking product according to the depositors' needs; and on financial planning during the roadshows. The mandates and public policy objectives of the PDIC were also discussed in the roadshows that were conducted in tertiary schools and local government units nationwide. During the year, the roadshows were held in Adamson University in Manila with the participation of seven other colleges and universities, the Provincial Capitol of Tacloban City, the Municipality of Taytay, Rizal, the City Government of Tanauan, Batangas, and at the Batangas City campus of the Lyceum of the Philippines University. Nearly one million brochures and other information materials were distributed to various schools, government offices and municipalities where the roadshows were held, and areas covered by bank takeover activities.

Notably, survey results gathered during the conduct of the BAWS roadshows indicated that more than 75% of the respondents expressed willingness to open bank accounts after attending the roadshows. Results also showed that as high as 97% of the respondents started to appreciate the importance and mandate of the PDIC after attending the BAWS roadshows.

Local Collaborations and Partnerships

The PDIC has also actively engaged in promoting depositor protection in collaboration with the Financial Sector Forum (FSF), a high level inter-agency organization composed of the BSP, PDIC, the Securities and Exchange Commission, and the Insurance Commission. PDIC has joined the FSF in undertaking financial education roadshows with the BSP around the country to educate the public on the individual mandates of the financial regulators as well as the FSF Advisory on Deposits and Investments. In 2011, PDIC joined the FSF and BSP Financial Education Expos in Manila and Cagayan de Oro City.



The PDIC actively participates in the financial education roadshows spearheaded by the BSP through conduct of lectures.



The PDIC and AMLC signed a MOA on information exchange to protect the depositing public from money laundering and other illegal activities committed in the handling and use of bank deposits.

The PDIC sustained its efforts in promoting financial literacy and responsible banking under the PDIC Financial Literacy Project (FLP). The FLP is a joint initiative of the PDIC and Department of Education (DepED) that successfully integrated the concepts on PDIC and financial literacy in the high school curriculum. The FLP produced Teacher’s Guides that discuss concepts such as deposit insurance, saving and financial literacy. The project is set for expansion to include the Philippine Stock Exchange (PSE) in the PDIC-DepED partnership. As of yearend, revisions to the Teacher’s Guide on economics were underway to pave the way for said expansion.

A major collaboration forged during the year was the Memorandum of Agreement on Information Exchange between the Corporation and the Anti-Money Laundering Council (AMLC). The agreement, signed on December 15, 2011, sought to adopt a framework for an effective exchange of data and information relevant to the performance of the statutory function/mandates of both institutions. This will help equip the PDIC and the AMLC in combating money laundering, fraud, and other irregularities and anomalies committed in the handling and use of bank deposits that may constitute unlawful activities under the Anti-Money Laundering Act.

The partnership of PDIC and AMLC aims to help combat money laundering, fraud and other bank anomalies.

International Relations

In support of the Corporation’s vision of becoming a world-class organization in depositor protection, the PDIC figured prominently in efforts promoting international relations and information-sharing.





Deposit Insurance Corporation of Japan (DICJ) outgoing Governor Mutsuo Hatano, DICJ incoming Governor Hiroyuki Obata and Mr. Masayuki Sugihara pay a courtesy call to PDIC President Valentin A. Araneta, Executive Vice President Imelda S. Singzon and Executive Vice President Cristina Q. Orbeta.

PDIC shares its unique experience as deposit insurer among its peers.

PDIC President Valentin A. Araneta was elected as a member of the Executive Council of the International Association of Deposit Insurers (IADI). He was also appointed Vice Chairman of the IADI Audit Committee. On the other hand, Executive Vice President Imelda S. Singzon was invited as panelist during the 9th Asia-Pacific Regional Committee Annual Meeting and International Conference in Bangkok, Thailand where she shared the Philippine experience in the resolution of problem banks.

PDIC also participated in the following international conferences and seminars namely: the 32nd IADI Exco Meeting, Standing Committee Meeting, and Financial Inclusion Workshop in Basel, Switzerland; the 33rd Meeting of the Executive Council, and the IADI Research Conference in Basel, Switzerland; the Seminar on the Assessment of Compliance with the Core Principles for Effective Deposit



PDIC shares its unique experience as deposit insurer among its peers. Executive Vice President Imelda S. Singzon was a panelist during the 9th APRC Annual Meeting where she shared the Philippine experience in the resolution of problem banks.

Insurance Systems in Basel; the Internal Audit Training in Kuala Lumpur, Malaysia; and the 10th IADI Annual General Meeting and Annual Conference on Deposit Insurance in Warsaw, Poland. PDIC also took part in the Conference on the Role of Deposit Insurance in Bank Resolution Framework held in Jodhpur, India, and in an international seminar on Deposit Insurance Fund Management and Assessment in Taipei, Taiwan.

PDIC shares expertise through foreign study visits.

To facilitate knowledge-sharing, PDIC organized study visits for the Malaysia Deposit Insurance Corporation and Nigeria Deposit Insurance Corporation who came to the country in separate occasions in 2011 to learn about PDIC's public awareness programs and its receivership and liquidation functions.



PDIC welcomes study visits and exchanges from other deposit insurance agencies. Top photo shows officers of the Malaysia Deposit Insurance Corporation Sarina Ariffin, Yeap Boo Yam, Hasina Mohammed, and Kevin Chew during their courtesy call to PDIC President Valentin A. Araneta and Vice President Maria Leonida Fres-Felix. Lower photo shows officers from the Nigeria Deposit Insurance Corporation Maku Josephine Ighanabhuele, Udofof George Ukpog, Afolayan Ganiyu Adesola, Nasir Mallam Idayat, and Adekunle Oluwole David with the resource persons from the Deposit Insurance Sector namely, Luisito M. Carreon (Presettlement Examination Department), Merlie M. Cañaverl (Claims Settlement Department), and Elaine B. Deticio (Claims Processing Department).

Governance



Governance

PDIC remains steadfast in its pursuit of good governance.

The PDIC, through its Board of Directors, remained steadfast in its pursuit of good corporate governance to help improve organizational and business efficiency and effectiveness.

Following the good governance platform of the administration, the PDIC Board approved the creation of the Board Governance Committee that assists the PDIC Board in fulfilling its corporate governance responsibilities and addresses systemic breaches from the rules and regulations of good governance. The Charter of the Board Governance Committee is expected to be approved in 2012.

The creation of the Board Governance Committee supports the existing Board Audit Committee (Board AC) and Board Risk Management Committee (BRMC).

The Board AC provides oversight supervision over the internal audit function of PDIC. It likewise ensures the adequacy, efficiency and effectiveness of the internal control system and the internal audit activities of the Corporation. The authority of the Board AC emanates from its Audit Charter that provides a framework for an independent, objective assurance and consulting activity that will enhance control and internal audit support of sound corporate governance.

The BRMC, meanwhile, oversees the identification of the Corporation's strategic risks and assesses the viability and capability of the PDIC to carry out its mandate. It also recommends to the Board of Directors appropriate policies or changes in existing policies concerning risk assessment and risk management. In addition, The BRMC monitors the adequacy, completeness, implementation, and effectiveness of the Corporation's risk management system, and ensures its responsiveness to address risks that face the Corporation.



Board members tackle issues on policy directions.





Roadmap



Roadmap 2012-2016

The Roadmap to 2016 aims to achieve optimal protection for depositors and financial stability.

The PDIC Board of Directors approved the Corporate Roadmap for the strategic directions that PDIC shall pursue from 2012 to 2016. The Roadmap contains five basic directions that are intertwined to protect depositors and help achieve financial stability. These directions are:

- 1) Early detection of bank weaknesses and fraud to prevent bank failure;
- 2) Strengthening of the organization and enhancing its financial and service capabilities;
- 3) Pursuit of legislative reforms;
- 4) Public Engagement; and,
- 5) Liquidation of non-financial assets.

Early detection of bank weaknesses and fraud to prevent bank failure

The Corporation believes that early detection of bank weaknesses and fraud to prevent bank failure will strengthen the stability and credibility of the banking system that impacts the faith and confidence among the depositing public. The adage, “an ounce of prevention is better than a pound of cure”, holds true especially in the banking industry. In line with this strategy, the PDIC will exhaust all possible actions to bring erring bankers to justice and recover losses incurred

from illegal activities. On the other hand, to strengthen its management and accounting capabilities, the PDIC shall help develop a Uniform Core Banking System for rural banks, to allow better monitoring of the banks’ financial condition and provide better service to clients.

Strengthening of the organization and enhancing its financial and service capabilities

Business process reviews are constantly conducted to respond to the challenges of deposit insurance and financial stability. PDIC will continue to maintain a robust and pliable organizational framework that provides opportunities for advancement and “career-pathing” via competitive compensation and continuing training program for its employees.

The strengthening of the organization shall be aligned with global best practices. The PDIC is thus preparing for the external assessment of compliance with the Core Principles of the International Association of Deposit Insurers (IADI) for Effective Deposit Insurance Systems; and identify and address these gaps to ensure compliance to the Core Principles by 2013.

Pursuit of the legislative reforms

To improve its receivership and liquidation processes, PDIC will pursue a legislative agenda for the passage of the Closed Bank Liquidation Act (CBLA). The CBLA is a proposed legislation that will govern the receivership and liquidation of closed banks in the Philippines. The CBLA intends to recognize creditors’ rights over assets of the bank upon closure thereof. It will also cover takeover operations, liquidation and

the winding-up of the affairs of closed banks. Salient features of the CBLA are: the seamless transition from receivership to liquidation; introduction of bridge bank as a mode to liquidate banks; improved legal protection for the directors, officers and other staff of the PDIC; and exemption from the Bank Deposit Secrecy Law to allow the PDIC to carry out its mandates efficiently.

Public engagement

Public engagement is another means to protect depositors. The PDIC believes that financial literacy and depositor awareness would assist depositors in making responsible decisions in choosing where to deposit their funds and thereby help promote financial stability. The Corporation will continue to pursue advocacy initiatives to promote financial literacy, responsible banking and wise saving through various campaigns and collaborations. Moving forward, the PDIC will continue dialogues and consultations with bank associations and individual banks when necessary, co-regulators and the media as part of its public awareness undertaking.

Liquidation of non-financial assets

Lastly, the Corporation includes the liquidation of non-financial assets as a key part of the Roadmap to further boost the Deposit Insurance Fund. Disposal of closed banks assets will reduce costs of asset management, and liquefy assets to facilitate distribution to creditors and depositors of the closed banks. The Corporation will also identify alternative asset disposition strategies to expedite the process, keeping in mind its recovery targets.





Financial Performance



Financial PERFORMANCE

Resources grew to
**Php160.9
billion.**

ASSETS

The Corporation's aggregate resources grew by Php4.2 billion to Php160.9 billion. This is 2.7% higher than the Php156.7 billion posted in 2010. Collections from insurance premium assessments from member-banks and interest from investments and financial assistance mainly accounted for the favorable growth in resources.

Cash and Cash equivalents

Cash and cash equivalents increased considerably by 143.8% or Php6.9 billion to Php11.7 billion from Php4.8 billion in 2010, mainly from assessments collected and placed in short-term investments. The increase in assessment collections was driven by the growth in deposits in the banking system. The shift to short-term investments was intended to provide sufficient liquidity for payment of insured deposit claims, and payment of loans/grant of financial assistance.

Investments

Investments declined by Php2.1 billion to Php106.3 billion from Php108.4 billion in the previous year. The decrease was mainly a result of the shift in investments to shorter tenors.

Loans and Receivables

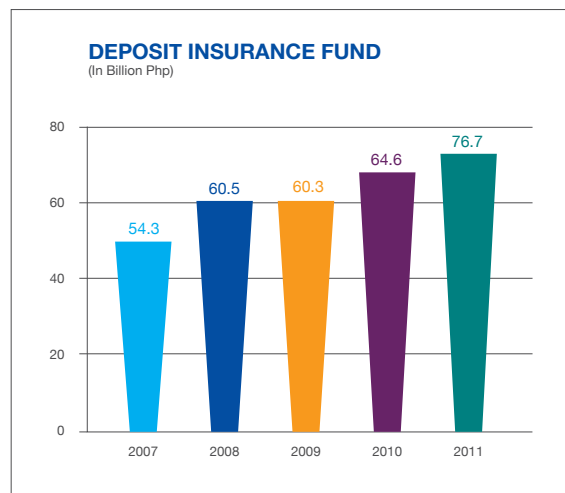
Total loans and receivables posted a double-digit increase of 10.6% to Php41.4 billion, almost Php4.0 billion from last year's Php37.4 billion. The growth was mainly due to loans which increased by Php1.9 billion following the reclassification of loans acquired from banks with financial assistance previously booked under the Other Assets account. Interest and Other Receivables rose by Php1.7 billion on account of the Php1.9 billion receivable from the National Government, representing its share in the insured deposits paid in excess of Php250,000 pursuant to Section 4 (g) of the PDIC Charter⁶.

LIABILITIES

Total liabilities decreased by 8.6% to Php84.2 billion from Php92.1 billion mainly due to payments of loans from BSP, accounts payable and other liabilities, and insured deposit claims payable. The latter accounted for unpaid but validated insured deposits as of yearend, aggregating more than Php3.9 billion. The payment of loans from the BSP resulted in a decrease by Php5.9 billion to Php66.7 billion of PDIC's loans payable. Accounts payable and other liabilities increased though by Php1.5 billion due to the Php1.3 billion interest accrued on loans payable.

⁶Section 4 of R.A. 9576 (29 April 2009) further states: "SEC. 4. The maximum deposit insurance coverage of Five Hundred Thousand Pesos (Php500,000.00) provided in Section 4(g) of Republic Act 3591, as amended herein, shall be paid by the Corporation: Provided, that, for the first three (3) years from the effectivity of this Act, the first Two Hundred Fifty Thousand Pesos (Php250,000.00) of the deposit insurance coverage shall be for the account of the Corporation, and those in excess of Two Hundred Fifty Thousand Pesos (Php250,000.00) but not more than Five Hundred Thousand Pesos (Php500,000.00) shall be for the account of the National Government. The Congress shall annually appropriate the necessary funding to reimburse the Corporation for any payment to insured depositors paid in excess of Two Hundred Fifty Thousand Pesos (Php250,000.00)."





The DIF stood at
Php76.7 billion
by yearend.

DEPOSIT INSURANCE FUND (DIF)

The DIF, the capital account of the Corporation, expanded by 18.7% or Php12.1 billion to Php76.7⁷ billion from Php64.6 billion last year due to the Php3.9 billion additions to reserves for insurance losses and gains in retained earnings of Php2.7 billion. Reserves for insurance losses climbed to Php61.3 billion from Php57.4 billion in 2010 while retained earnings rose to Php6.5 billion by yearend from Php4.2 billion last year. Retained earnings was net of dividends remitted to the National Government in the amount of Php504.7 million which is 50% of Profit before Tax Subsidy. Aside from the additional reserves and retained earnings, the DIF has a third component, the Permanent Insurance Fund (PIF), currently at Php3.0 billion, as provided for under the Charter of the Corporation.

COMPREHENSIVE INCOME

The Corporation's comprehensive income reached Php8.7 billion, growing significantly by 251.7% from Php2.5 billion in 2010. The growth was attributed largely to the Php5.9 billion increase in the Other Comprehensive Gain/(Loss) account and the Php470.4 million increase in tax subsidy income. The tax subsidy resulted from charging of the Corporation's tax obligations to the Tax Expenditure Fund (TEF) as provided by law. This is pursuant to the provisions of Section 17 (c) of the PDIC Charter intended to augment the DIF to ensure its continuous build-up.

Gross Income

Meanwhile, gross income increased by 14.9% to Php17.8 billion from Php15.5 billion in 2010. Assessments collected from member-banks posted an almost double-digit growth of 9.3% to Php10.1 billion from Php9.2 billion last year buoyed by the increase in the total deposits of banks which reached Php5.4 trillion compared to last year's level of Php5.1 trillion. Income from investments and financial assistance grew by 1.9% and 13.8%, respectively. Income from investment reached Php5.9 billion compared to last year's Php5.8 billion as more funds were invested during the year sourced mainly from assessment premiums, interest income from investments and financial assistance. Income from financial assistance rose to Php482.2 million from Php423.7 million in 2010 due to reclassification of certain assets to loans.

Expenses and Charges

Expenses and charges grew by 15.1% to Php16.3 billion from Php14.2 billion in 2010. The increase was due primarily to Additions to Reserves and Insurance and Financial Assistance Losses, which rose by Php1.4 billion and Php0.5 billion, respectively. Operating expenses also contributed to higher expenses, increasing by Php247.7 million. The growth in Expenses was tempered by the decline in Interest on Borrowings.

⁷Inclusive of Php5.9 billion unrealized gain on sale of investments due to reclassification of the Corporation's outstanding Held-to-Maturity (HTM) investments totaling Php88.2 billion to Available-for-Sale (AFS) investments with a market price of Php94.1 billion.

INDEPENDENT AUDITOR'S REPORT



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER A – FINANCIAL

INDEPENDENT AUDITOR'S REPORT

**The Board of Directors
Philippine Deposit Insurance Corporation
Makati City**

We have audited the accompanying financial statements of Philippine Deposit Insurance Corporation, which comprise the statement of financial position as at December 31, 2011, and the statement of comprehensive income, statement of changes in deposit insurance fund and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As discussed in item no. 1 of Part II – A of the audit report, the impairment loss on the Corporation's P12 billion investment with a sequestered bank was not recognized in the 2009 and 2010 financial statements. In the 2011 financial statements, Management still maintained its position not to recognize impairment loss amounting to P9.236 billion, which constitutes a departure from Philippine Accounting Standards 39. Had the impairment loss been recognized by the Corporation, total expenses would have been increased by P9.236 billion and net income for the year would have been reduced by the same amount.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Deposit Insurance Corporation as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

A handwritten signature in black ink, appearing to read 'Julia Ella Moreno'.

JULIA ELLA – MORENO
Supervising Auditor

30 May 2012



STATEMENT OF FINANCIAL POSITION

As at December 31, 2011
(In Thousand Pesos)

	Note	2011	2010 As restated
ASSETS			
Cash and cash equivalents	3	11,672,808	4,788,462
Available-for-sale investments	4	106,259,764	12,328,134
Held-to-maturity investments	5	-	96,023,254
Loans and receivables	6	41,432,774	37,453,320
Property and equipment	7	158,949	155,380
Intangible assets	8	57,119	42,898
Other assets	9	1,322,860	5,937,633
TOTAL ASSETS		160,904,274	156,729,081
LIABILITIES AND DEPOSIT INSURANCE FUND			
Liabilities			
Accounts payable and other liabilities	10	13,502,615	11,917,889
Insured deposit claims payable	11	3,961,810	7,551,471
Loans payable	12	66,717,864	72,606,203
		84,182,289	92,075,563
Deposit Insurance Fund			
Permanent insurance fund		3,000,000	3,000,000
Reserves for insurance losses		61,340,973	57,440,973
Retained earnings		6,472,211	4,254,620
Accumulated other comprehensive gain/(loss)		5,908,801	(42,075)
		76,721,985	64,653,518
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND		160,904,274	156,729,081

The Notes on pages 68 to 79 form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the period ended December 31, 2011
(In Thousand Pesos)

	Note	2011	2010 As restated
INCOME			
Assessments	14	10,061,924	9,207,843
Income from investments	15	5,950,105	5,838,323
Income from financial assistance	16	482,201	423,698
Other income	18	1,330,826	47,654
		17,825,056	15,517,518
EXPENSES AND CHARGES			
Operating expenses	19	1,388,644	1,140,961
Additions to reserves for insurance losses	21	3,900,000	2,500,000
Insurance and financial assistance losses	22	8,780,826	8,282,336
Interest on borrowings	23	2,234,541	2,238,112
		16,304,011	14,161,409
PROFIT BEFORE TAX		1,521,045	1,356,109
Income tax expense		511,627	1,328,749
PROFIT BEFORE TAX SUBSIDY		1,009,418	27,360
Income from tax subsidy	17	1,712,882	2,442,422
PROFIT		2,722,300	2,469,782
OTHER COMPREHENSIVE GAIN/(LOSS)			
Unrealized gain/(loss) on investments		5,950,876	(4,088)
TOTAL COMPREHENSIVE INCOME		8,673,176	2,465,694

The Notes on pages 68 to 79 form part of these financial statements

STATEMENT OF CHANGES IN DEPOSIT INSURANCE FUND

For the period ended December 31, 2011
(In Thousand Pesos)

	2011	2010 As restated
PERMANENT INSURANCE FUND		
Balance at beginning / end of the year	3,000,000	3,000,000
RESERVES FOR INSURANCE LOSSES		
Balance at beginning of the year	57,440,973	54,940,973
Additions / deductions	3,900,000	2,500,000
Balance at end of year	61,340,973	57,440,973
RETAINED EARNINGS		
Balance at beginning of the year	4,254,620	2,366,101
Net income after tax	2,722,300	2,469,782
Dividends to National Government	(504,709)	(581,263)
Balance at end of year	6,472,211	4,254,620
ACCUMULATED COMPREHENSIVE GAIN/(LOSS)		
Balance at beginning of year	(42,075)	(37,987)
Unrealized gain/(loss) on investments	5,950,876	(4,088)
Balance at end of year	5,908,801	(42,075)
DEPOSIT INSURANCE FUND	76,721,985	64,653,518

The Notes on pages 68 to 79 form part of these financial statements

STATEMENT OF CASH FLOWS

For the period ended December 31, 2011
(In Thousand Pesos)

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Assessment collections		9,868,889	9,185,900
Income from investments		6,493,094	6,638,361
Income from financial assistance		1,977	55,757
Collections of loans and assets acquired from banks		3,145,941	257,024
Collections from banks under receivership & liquidation		36,919	49,804
Collections of subrogated claims receivables		35,942	129,787
Dividend, service and miscellaneous income		14,186	19,439
Collection/payment of various payables		177,202	(232,051)
Payment of insured deposits		(14,581,577)	(10,345,658)
Payment of interest on borrowings		(3,510,085)	(694,563)
Maintenance and other operating expenses		(1,184,238)	(1,018,028)
Payment of taxes / income tax deficiencies		(1,028)	(371)
Payment of cash advances and various receivables		(20,965)	(82,944)
Advances for receivership and liquidation operations		(108,172)	(12,478)
Net cash provided by operating activities		368,085	3,949,979
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from matured investments		153,196,076	20,509,280
Placement in various investments		(149,043,538)	(26,004,410)
Cost of purchased property & equipment		(32,354)	(50,517)
Net cash provided/(used) in investing activities		4,120,184	(5,545,647)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings from BSP		1,500,000	72,762
Final withholding tax on investments	28	1,481,567	2,102,256
Payment of loans to BSP		(4,258)	(95,340)
Payment of dividends to National Government		(581,263)	(1,237)
Net cash provided by financing activities		2,396,046	2,078,441
NET INCREASE IN CASH AND CASH EQUIVALENTS		6,884,315	482,773
CASH AND CASH EQUIVALENTS, BEGINNING		4,788,462	4,305,796
Effect of Foreign Currency Revaluation		31	(107)
CASH AND CASH EQUIVALENTS	3	11,672,808	4,788,462

The Notes on pages 68 to 79 form part of these financial statements



NOTES TO FINANCIAL STATEMENTS

(All amounts in thousand pesos unless otherwise stated)

1. GENERAL/CORPORATE 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 Bangko Sentral ng Pilipinas (BSP) in promoting stability in the banking system and the economy as a whole.

The Corporation's principal office is located at the 4th – 10th Floor SSS Bldg., 6782 Ayala Ave. corner V.A. Rufino St. Makati City.

As at December 31, 2011, PDIC's total manpower complement is 571 (180 officers and 391 rank and file employees), of which, one is a Presidential appointee, 559 are permanent, ten are coterminous and one is temporary.

The financial statements was authorized for issuance by the Board of Directors on February 28, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The Corporation's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Standing Interpretations Committee (SIC)/International Financial Reporting Standards Committee (IFRIC) interpretations which have been approved by the Financial Reporting Standards Council (FRSC).

The Corporation, as Receiver/Liquidator, is responsible for managing and disposing the assets of closed banks in an orderly and efficient manner. The receivership and liquidation transactions 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 advanced by the Corporation are booked as Accounts Receivable and billed by the Corporation against the respective closed banks.

The financial statements of the Corporation have been prepared under the historical cost basis, except for available-for-sale (AFS) investments that have been measured at fair value. The financial statements are presented in Philippine Peso and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Use of judgments and estimates

The preparation of the financial statements in accordance with the PFRS, requires the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, fund, 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.

a. Impairment of Available-for-Sale (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.

b. Impairment of Held-to-Maturity (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.

c. Impairment losses of loans and receivables from banks

The Corporation reviews its loans and receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of comprehensive 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.

d. Impairment of subrogated claims receivable/accounts receivable - receivership and liquidation

The Subrogated Claims Receivable (SCR) account represents payments made by PDIC on deposit insurance claims and is periodically reviewed to determine whether an impairment loss should be recorded based on the probability of non-recovery of such exposure upon liquidation of closed banks. This is computed taking into consideration the closed banks' respective Estimated Realizable Value of Assets and preference of credits in the liquidation process.

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

e. Estimated useful lives of property and equipment

The Corporation uses the prescribed estimated useful lives of Property and Equipment account and depreciable investment properties.

f. 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, that there may be material changes in the estimates based on developments or events in the future.

2.3 Changes in accounting policies and disclosures

The Accounting policies adopted are consistent with those used in the previous financial year.

2.3.1 New and amended standards and interpretations

The following new standards, amendments and interpretations to existing PFRS which became effective for accounting period beginning on or after January 1, 2011, did not have a significant impact on the accounting policies, financial condition or performance of the Corporation.

- PFRS 7 Financial Instruments: Disclosures (Amendments) – Disclosures -Transfers of Financial Assets.
- PAS 24 (Revised), Related Party Disclosures
- PAS 1, Presentation of Financial Statements

2.3.2 Issued PFRS but are not yet effective

Accounting standards issued but not yet effective up to date of issuance of the Corporation's financial statements are listed below. The listing consists of accounting standards and interpretations issued, which the Corporation reasonably expects to be applicable at a future date. The Corporation intends to adopt these standards when they become effective, except as otherwise indicated. The

Corporation does not expect adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

- PAS 1 (Amendment), *Presentation of Financial Statements – Other Comprehensive Income* (effective July 1, 2012)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has, therefore, no impact on the Corporation's financial position or performance.

- PAS 32, *Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities* (effective January 1, 2014)

These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment affects presentation only and has, therefore, no impact on the Corporation's financial position or performance.

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective January 1, 2013)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral arrangements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set-off in accordance with PAS 32. The amendments require disclosing, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.



- PFRS 9, *Financial Instruments: Classification and Measurement* (effective January 1, 2015)

PFRS 9 as issued reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The Corporation will early adopt PFRS 9 for its 2012 financial reporting. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Corporation's financial assets and measurements of financial liabilities.

- PFRS 13, *Fair Value Measurement* (effective January 1, 2013)

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure under PFRS when fair value is required or permitted. The Corporation is currently assessing the impact that this standard will have on the financial position and performance.

2.4 Significant accounting policies

a. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other check items, working funds, savings and demand deposits, and 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.

b. 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. Classifications of investments are being 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. However, loans and receivables are recognized when cash is advanced for direct loans, insured deposits, expenses for receivership and liquidation, and other similar transactions.

b.1. AFS investments

AFS 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 until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in capital should be recognized in the statements of income.

b.2. HTM investments

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

b.3. 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 arises from payment of the insured deposits of any depositor since the Corporation is subrogated to all rights of the depositor against a closed bank to the extent of such payment. Such subrogation shall include the right on the part of the Corporation to receive the same payments and dividends 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.

c. 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 financial position 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.

c.1. Impairment of financial assets

- 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.

The carrying amount of the asset is reduced through the use of an allowance account. The amount of loss is charged to current operations.

- 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. 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 statement of comprehensive income.

- 3) For assets carried at cost, impairment is measured as the difference between the carrying amount and the estimated future cash flows.

c.2. Derecognition of financial instruments

1) **Financial Asset**

A financial asset 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 expired.

d. **Property and equipment**

The Corporation's depreciable properties, excluding buildings, are stated at cost less accumulated depreciation and amortization. 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 statement of comprehensive income.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. This is computed at cost less residual value over useful life. The estimated useful life of the respective asset follows:

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

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

e. **Intangible assets**

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

The Corporation has adopted the straight-line amortization method for the intangible assets over five years.

f. **Acquired Assets from Banks**

The Corporation is authorized to purchase the non-performing assets of an insured bank as a mode of financial assistance. Acquired assets also include those received from closed banks as payment for Subrogated Claims Receivables and advances for Receivership and Liquidation Expenses. The acquired assets may consist of loans and/or real and other properties (ROPA). These are booked at cost with periodic valuation for impairment and are being held for sale.

g. **Borrowings and borrowing costs**

Borrowings of the Corporation are mostly sourced from the Bangko Sentral ng Pilipinas (BSP) in accordance with Section 18 of Republic Act 3591 to fund financial assistance to banks and claims for insured deposits. Borrowings are initially recognized at fair value, being their issue proceeds, net of transaction costs incurred. If there is a difference between the maturity value and proceeds, net of transaction costs, the difference is amortized and recognized in profit or loss over the period of the borrowings using the effective interest method. Borrowings are subsequently stated at amortized cost and borrowing costs are recognized as expense in the year in which these costs are incurred.

h. **Deposit insurance fund**

The Deposit Insurance Fund (DIF) is the capital account of the Corporation and shall principally consist of the following: (a) the Permanent Insurance Fund; (b) Reserves for insurance losses; and (c) retained earnings. The reserves for insurance losses and retained earnings shall be maintained at a reasonable level to ensure capital adequacy.

Since 2003, the Corporation adopted the Target Fund Approach in setting a target level of the DIF based on direct threat and potential demand on the Corporation's capital, as evaluated against the risks in the banking system as of a given date.

i. **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 of the obligations of PDIC to the then Central Bank of the Philippines in the amount of Php977.787 million into equity of the National Government.

j. Reserves for insurance losses

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 a bank's rehabilitation. This probability of closure is the basis in determining the existence of a loss contingency. The insurance reserve is recorded in the books as Reserves for Insurance Losses.

k. Income recognition

Income is recognized to the extent that it is probable that the economic benefits will flow into the Corporation and the income can be reliably measured:

k.1. Assessments

Assessment collections from member banks are recognized as income once received by the Corporation.

Member banks are assessed a maximum rate of one-fifth of one percent per annum of the assessment base, which is the amount of liability of the bank for deposits as defined under subsection a of Section 6 of the Charter. This shall in no case be less than Php5,000 and collected on a semestral basis. The amount of assessment is based on the average of deposit liabilities as at the close of business on March 31 and June 30 for the first semester and as at the close of business on September 30 and December 31 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.

k.2. Investment income

Interest on interest-bearing placements and securities are recognized as the interest accrues, taking into account the interest rate or yield to maturity on such assets.

k.3. Income from financial assistance

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

k.4. Income from tax subsidy

Tax obligations paid through the Tax Expenditure Fund in accordance with Section 17c of Republic Act (RA) 3591, as amended by RA 9576, are booked as income. This shall be for a period of five (5) years starting June 1, 2009 and on the 6th year and thereafter, the Corporation shall be exempt from income tax, final withholding tax, value-added tax on assessments collected from member banks and local taxes.

l. 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.

m. Employee benefits

m.1. 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. Starting December 16, 2009, corporate contribution is vested to the employee based on their length of service in the Corporation as follows:

<u>Years of Service</u>	<u>Percentage</u>
Less than 1 year	0
1 year but less than 2 years	20
2 years but less than 3 years	30
3 years but less than 4 years	40
4 years but less than 5 years	50
5 years or more	100

The Fund is administered by its Board of Trustees.

m.2. Retirement

GSIS retirement benefit under R.A. 8291 is available to any qualified employee who is at least 60 years and with at least 15 years of service at the time of retirement. R.A. 8291 likewise provides for separation benefits.

m.3. Accrued leave pay

This represents the cash value of the accumulated vacation and sick leave credits of employees, 50 per cent of which can be monetized in accordance with policy.

n. Leases

n.1. Operating lease

Leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

n.2. Finance lease

Leases of assets where PDIC substantially assumes all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the outstanding balance of the finance lease. The corresponding rental obligations, net of finance charges, are included in the payables of the Corporation.

o. Financial assistance to banks

In accordance with Sec. 17 (d) of R.A. 3591, as amended, 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 principle, the alternative chosen must not cost more than the actual payout of the insured deposits and liquidation thereof. The financial assistance to a bank may be in the form of a loan, purchase of assets, assumption of liabilities, placements of deposits, equity or quasi-equity.

3. CASH AND CASH EQUIVALENTS

This account includes the following:

	2011	2010
Cash on hand ^{3.1/}	16	460
Cash in bank ^{3.2/}	403,017	88,574
Short-term investments ^{3.3/}	11,269,775	4,699,428
	11,672,808	4,788,462

3.1 The balance includes checks and other cash items received after the close of banking hours on the last business day of the month/year.

3.2 The account consists of the balances of bank accounts for operating funds, payout funds, collections, emergency drawing and BSP current account.

3.3 The account refers to investments classified as cash equivalents having maturities of three months or less from the date of acquisition/placement.

4. AVAILABLE-FOR-SALE INVESTMENTS (AFS)

This account includes the following:

	2011	2010
Regular Investments ^{4.1/}	67,876,081	328,134
Sinking funds ^{4.2/}	26,148,428	-
Legal liability insurance fund ^{4.3/}	235,255	-
Equity securities ^{4.4/}	12,000,000	12,000,000
	106,259,764	12,328,134

4.1 This consists of special savings deposits, treasury bills, notes and bonds.

4.2 Accumulated balance of funds being built up to repay PDIC loans upon maturity, a portion of which is being managed by Bangko Sentral ng Pilipinas (BSP).

4.3 Funds being accumulated by the Corporation starting 2006, to reach Php200 million to finance legal expenses for possible cases that may be filed against directors, officers and employees of the Corporation in the performance of their duties.

4.4 This represents PDIC's subscription on March 31, 2009 to the Capital Notes issued by a commercial bank in the amount of Php12 billion by way of conversion of the latter's outstanding obligations to PDIC for the 2003 Financial Assistance. The Capital Notes have features consistent with BSP Circular

No. 595-2008 on "Interim Tier I Capital for Banks Under Rehabilitation" and in accordance with the conditions set forth in the Memorandum of Agreement executed for the said bank's rehabilitation on July 17 and 25, 2008 and a subsequent amendment thereto on November 21, 2008.

5. HELD-TO-MATURITY INVESTMENTS (HTM)

The Corporation sold Php9.60 billion worth of government securities lodged under the held-to-maturity (HTM) account in 2011. In compliance with the requirement of the Philippine Accounting Standards (PAS) No. 39 under the "tainting rule", all of the Corporation's outstanding investment totaling Php88.19 billion classified under HTM using amortized cost valuation were reclassified to available-for-sale with market price amounting to Php94.10 billion.

The HTM investments in 2010 consist of peso, special savings deposits, treasury bills, notes and bonds, Home Guaranty Corporation debenture bonds and Agrarian Reform bonds as follows:

	2011	2010
Regular investments	-	68,046,939
Sinking funds	-	27,857,538
Legal liability insurance fund	-	118,777
	-	96,023,254

6. LOANS AND RECEIVABLES

The following receivables are classified into this account as follows:

	2011	2010
Loans ^{6.1/}	26,527,555	24,618,581
Receivables - closed banks ^{6.2/}	11,881,462	11,525,118
Interest receivables ^{6.3/}	1,136,452	1,309,301
Due from National Government ^{6.4/}	1,885,529	-
Other receivables ^{6.5/}	1,776	320
	41,432,774	37,453,320

6.1 Loans

This represents financial assistance in the form of i) interest bearing loans to four commercial banks, three rural banks and one thrift bank, amounting to Php24.172 billion and ii) assets acquired from financial assistance amounting to Php2.356 billion.

6.2 Receivables - closed banks include the following:

	2011	2010
Subrogated claims receivable ^{a/}	52,779,245	41,900,913
Subrogated claims receivable - assigned ^{a.1/}	(1,889,291)	(3,762)
Allowance for doubtful accounts	(40,396,173)	(31,616,576)
	10,493,781	10,280,575
AR-receivership and liquidation ^{b/}	1,380,216	1,235,830
Allowance for doubtful accounts	(17,129)	(15,881)
	1,363,087	1,219,949
Loans receivables-closed banks ^{c/}	164,496	164,496
Allowance for doubtful accounts	(139,902)	(139,902)
	24,594	24,594
	11,881,462	11,525,118

a. Subrogated claims receivable (SCR)

This is the amount of insured deposit claims paid by PDIC to depositors of closed banks plus balance of the verified/validated claims accrued (Note 11) in accordance with IAS 37. The claims for these were filed by PDIC against the closed banks for recovery against the remaining assets of these banks upon liquidation.

a.1 The Subrogated Claims Receivable - Assigned account consists of: a) Php1.885 billion insured deposits paid in excess of the first Php250,000 for each depositor which is for the account of the National Government in accordance with Section 4 of Republic Act 9576; and b) Php3.762 million representing the amount of subrogated claims assigned to BSP in exchange for non-negotiable promissory notes 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.

b. Accounts receivable – receivership and liquidation (ARRL)

These are the expenses advanced by the Corporation in carrying out its mandate as receiver and liquidator of closed banks.

c. Loans receivables – closed banks (LRCB)

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

6.2.1 Allowance for doubtful accounts

Reconciliation of the allowance for doubtful accounts follows:

	2011			2010		
	SCR	ARRL	LRCB	SCR	ARRL	LRCB
Balance at beginning of year	31,616,576	15,881	139,902	24,038,469	11,797	140,432
Provisions during the year	8,779,597	1,229	-	7,578,070	4,084	-
Adjustments	-	17	-	37	-	(531)
Balance at end of the year	40,396,173	17,129	139,902	31,616,576	15,881	139,902

6.3 Interest receivables

This represents interest receivables from investments amounting to Php1.002 billion in 2011 and Php1.190 billion in 2010 and from loans granted to assisted banks of Php0.134 billion in 2011 and Php0.119 billion in 2010.

6.4 Due from National Government

This represents the share of the National Government on insured deposits paid in excess of Php250,000 (refer to 6.2.a.1)

6.5 Other receivables

This represents all other receivables including assessment deficiencies of member banks and those subsequently closed.

7. PROPERTY AND EQUIPMENT

This account includes the following:

Particulars	Land Building and Construction -in-Progress ^{7.1/}	Furniture Fixtures, Equipment and Books	Transportation Equipment ^{7.2/}	Leasehold Improvements	Total
Cost					
At 1 January 2011	179,057	175,856	23,861	58,397	437,171
Additions	-	23,081	-	1,666	24,747
Disposals/adjustments	-	(41,194)	-	-	(41,194)
At 31 December 2011	179,057	157,743	23,861	60,063	420,724
Accumulated Depreciation					
At 1 January 2011	89,218	125,206	8,970	58,397	281,791
Depreciation	3,472	11,054	2,750	-	17,276
Disposals/adjustments	-	(37,292)	-	-	(37,292)
At 31 December 2011	92,690	98,968	11,720	58,397	261,775
Net book value					
At 31 December 2011	86,367	58,775	12,141	1,666	158,949
At 31 December 2010	89,839	50,650	14,891	-	155,380

7.1 This account includes property located at Chino Roces Avenue, Makati City, with appraised values of Php350 million for the land and Php99.520 million for the building.

7.2 The account includes six vehicle units.

8. INTANGIBLE ASSETS

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

Particulars	Cost	Accumulated Amortization	Net Book Value
At 1 January 2011	57,999	15,101	42,898
Additions	24,089	-	24,089
Amortization	-	9,868	(9,868)
At 31 December 2011	82,088	24,969	57,119
At 31 December 2010	57,999	15,101	42,898

9. OTHER ASSETS

This account includes the following:

	2011	2010
Assets acquired ^{9.1/}	2,962,593	20,755,977
Allowance for probable losses	(2,222,152)	(15,063,617)
	740,441	5,692,360
Acquired assets as payment of receivables from closed banks ^{9.2/}	221,587	87,128
Allowance for probable losses	(11,047)	(11,047)
	210,540	76,081
Provident fund-car fund	49,801	49,802
Prepayments ^{9.3/}	298,547	99,821
Guarantee deposits ^{9.4/}	15,731	14,576
Advances to officers and employees ^{9.5/}	3,079	1,462
Inventories		
Office supplies and materials	2,763	1,958
Decals and standees	477	454
Petty cash fund ^{9.6/}	1,101	830
Others-resigned employees	380	289
	1,322,860	5,937,633

9.1 Includes assets acquired from financially assisted banks being held for sale.

9.2 Includes assets received from closed banks in payment for subrogated deposits and advances for receivership and liquidation expenses.

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

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

9.5 These are cash advances of officers and staff mostly for travel assignments.

9.6 The account includes cash for petty operating expenses and emergency drawings for specific purposes.

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account includes the following:

	2011	2010
Interest payable ^{10.1/}	12,201,623	10,897,126
Due to officers and employees ^{10.2/}	150,680	140,333
Accounts payables ^{10.3/}	101,460	35,229
Inter-agency payables ^{10.4/}	1,025,710	806,631
Other payables ^{10.5/}	23,142	38,570
	13,502,615	11,917,889

10.1 The balance of this account represents accrued interest of Php12.187 billion on loans from the Bangko Sentral ng Pilipinas and Php14.539 million from the Land Bank of the Philippines, which will be paid in accordance to the terms of the loan agreement (e.g. bullet, annual, etc.).

10.2 This is composed of accrued leaves of employees payable upon monetization, retirement or resignation amounting to Php146.301 million, and unpaid salaries and benefits amounting to Php4.379 million such as loyalty pay, overtime, performance incentive, rice benefit and tax refunds to be paid in the succeeding year.

10.3 This refers to the amount due to various suppliers/creditors and unclaimed checks.

10.4 Inter-agency payables consist of payables to the following:

	2011	2010
PDIC Provident Fund	12,117	11,492
Bureau of Internal Revenue	499,446	269,542
Government Service Insurance System	8,088	7,623
National Government/BTR	504,709	581,263
PhilHealth	1,056	1,047
Pag-IBIG	294	279
Bangko Sentral ng Pilipinas	-	214
	1,025,710	871,460

10.5 Other payables include bidders' performance bond payable, payables to resigned employees and overpayment by banks, which are creditable to subsequent assessment period.

11. INSURED DEPOSIT CLAIMS PAYABLE

This account represents balance of unpaid but validated insured deposit claims totaling Php3.962 billion.

12. LOANS PAYABLE

This account represents outstanding loans payable to the Bangko Sentral ng Pilipinas which were utilized, as follows:

	2011	2010
Financial assistance granted to various banks		
Commercial Banks	59,837,628	65,725,967
Thrift Banks	3,950,865	3,950,865
Rural Banks	2,929,371	2,929,371
	66,717,864	72,606,203



13. MATURITY PROFILE OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

Particulars	2011		2010	
	Less than 12 months	Over 12 months	Less than 12 months	Over 12 months
ASSETS				
Cash and cash equivalent	11,672,808	-	4,788,462	-
Investments	14,863,618	91,396,146	4,854,112	103,497,276
Loans and receivables	5,558,228	35,874,546	1,309,301	36,144,019
Property and equipment	-	158,949	-	155,380
Intangible assets	-	57,119	-	42,898
Other assets	371,879	950,981	169,191	5,768,442
Total Assets	32,466,533	128,437,741	11,121,066	145,608,015
LIABILITIES				
Accounts payable and other liabilities	1,690,167	11,812,448	1,408,152	10,509,737
Insured deposit claims payable	3,961,810	-	7,551,471	-
Loans payable	3,113,832	63,604,032	4,419,000	68,187,203
Total Liabilities	8,765,809	75,416,480	13,378,623	78,696,940
NET	23,700,724	53,021,261	(2,257,557)	66,911,075

14. ASSESSMENT INCOME

This consists of assessment premium received as follows:

	2011	2010
First semester	4,969,093	4,530,074
Second semester	5,092,831	4,677,769
	10,061,924	9,207,843

15. INCOME FROM INVESTMENTS

This consists of interest income from investments (net of tax) as follows:

	2011	2010
Cash equivalents	209,842	134,795
Available for sale	19,348	27,440
Held to maturity :		
Regular investments	4,020,900	4,086,478
Sinking fund	1,693,534	1,584,072
Legal liability insurance fund	6,481	5,538
	5,950,105	5,838,323

16. INCOME FROM FINANCIAL ASSISTANCE

The balance of this account refers to interest income totaling Php482.201 million in 2011 and Php423.698 million in 2010, derived from financial assistance to banks by way of interest bearing direct loans and acquisition of assets.

17. INCOME FROM TAX SUBSIDY

A total of Php1.713 billion in 2011 and Php2.442 billion in 2010 tax obligations of PDIC charged to the Tax Expenditure Fund (TEF) in accordance with Section 17 (c) of the PDIC Charter, as amended by Republic Act 9576, were booked to this account.

18. OTHER INCOME

Balance of this account consists of the following:

	2011	2010
Gain on exchange/sale of investments ^{18.1}	1,073,288	-
Service income	162,120	27,779
Dividend income	48,509	11,572
Gain/(loss) on sale of disposed assets	27,562	525
Miscellaneous income	12,639	7,681
Interest on late payment of assessment	6,680	105
Gain/(loss) on foreign currency revaluation	28	(8)
	1,330,826	47,654

18.1 This pertains to the gain from sale of Php9.60 billion government securities (refer to note 5).

19. OPERATING EXPENSES

This account consists of the following:

	2011	2010
Personal services	952,506	760,856
Maintenance and other operating expenses	436,138	380,105
	1,388,644	1,140,961

The Gender and Development (GAD) expenses amounted to Php84.208 out of the Php221.750 budget for 2011. These were incurred for GAD Learning Sessions/activities during the Women's Month celebration, GAD Orientation/Capacity Building and participation in GAD seminars for the Department of Finance GAD Focal Points System.

20. TAXES

In compliance with the requirements set forth by the Bureau of Internal Revenue (BIR) in Revenue Regulation No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued in 2011 (refer to Note 16):

	2011	2010
Value added tax (VAT) ^{20.1/}	1,297,603	2,172,147
Capital gains tax	-	1,543
Documentary stamp tax	7,500	747
Percentage tax		10
Withholding taxes		
On compensation and benefits	158,878	140,309
Creditable withholding taxes	32,310	30,229
Final withholding taxes	274	281
Other taxes and licenses		
Community tax certificate	11	10
BIR annual registration fee	1	1
	1,496,577	2,345,277

20.1 The Corporation received a preliminary assessment notice (PAN) dated December 29, 2010 and formal assessment notice (FAN) dated October 19, 2011 from the BIR, covering taxable year 2009 amounting to Php815.039 million. The assessment pertains to interests and surcharges on late receipt by the BIR of payment documents (Special Allotment Release Order from the Department of Budget and Management) concerning basic income tax and VAT charged to the tax expenditure fund. PDIC in letters dated January 14, 2011 and October 19, 2011 protested and requested abatement of interest and surcharges on the said PAN and FAN, respectively. This however has yet to be resolved as of December 31, 2011.

21. ADDITIONS TO RESERVES FOR INSURANCE LOSSES

In accordance with Note 2.4.g and the Revised Guidelines for Insurance Reserves Targeting and the Revised Methodology in Establishing the Insurance Reserves Target approved under Board Resolution No. 2008-06-089 dated June 27, 2008, an additional Php3.900 billion reserves for insurance losses was charged to income in 2011 to ensure adequacy of reserves for insurance calls.

22. INSURANCE AND FINANCIAL ASSISTANCE LOSSES

Insurance and financial assistance losses consist of the following:

	2011	2010
Deposit claims pay-out expenses ^{22.1/}	8,779,597	7,578,070
Rehabilitation cost ^{22.2/}	-	700,182
Receivership and liquidation expenses ^{22.3/}	1,229	4,084
	8,780,826	8,282,336

22.1 Deposit claims pay-out expenses – estimated losses on deposit insurance claims paid, based on the respective estimated realizable value of assets and preference of credits in the liquidation of closed banks.

22.2 Rehabilitation cost – estimated losses on assets acquired from assisted banks.

22.3 Receivership and liquidation expenses – estimated losses on receivables from closed banks for necessary expenses advanced by the Corporation as receiver and liquidator.

23. INTEREST ON BORROWINGS

This account consists of Interest Expense totaling Php2.234 billion in 2011 and Php2.238 billion in 2010 primarily on outstanding loans to BSP used to fund the financial assistance and payout operations of various banks.

24. LEASES

The Corporation leased the premises of the Social Security System at Ayala Avenue, Makati City, which serve as PDIC's principal office for Php89.758 million in 2011. The lease is renewable annually under certain terms and conditions.

25. CONTINGENT LIABILITIES AND OTHER MATTERS

25.1 The following are the pending cases which may result in contingent liabilities as a consequence of adverse judgments that may be rendered:

a. Claims for deposit insurance

Twelve cases were filed against the Corporation for payment of deposit insurance in the estimated amount of Php46.646 million. In addition, the Corporation initiated an action for interpleader against claimants/depositors involving the amount of Php250,000.

b. Claims of the separated employees

The remaining estimated claim to which several former employees of PDIC who were separated as a result of the reorganization pursuant to Section 23 of the PDIC Charter, as amended, are entitled to amounts to Php783,000. The appeal filed by the separated employees was dismissed by the Court of Appeals per Resolution dated March 23, 2011 which has already attained finality. Hence, CSC Resolution No. 06-0836 dated May 12, 2006 upholding the validity of PDIC reorganization, is now final.

c. Cases subject matter of which are incapable of pecuniary estimation

There are eight cases where the Corporation was impleaded as a respondent or defendant, subject matter of which are incapable of pecuniary estimation. These involve acts of the Corporation in its capacity as Receiver/Liquidator.

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



25.2 Estimated insured deposits

As at December 31, 2011, total insured deposits within the Php500,000 insurance coverage amounted to Php1.528 trillion representing 43.665 million accounts. This is equivalent to 28.45 percent of the total deposits of Php5.370 trillion in the banking industry.

25.3 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 Php989.900 million for contested billings of Php987.946 million including interests.

25.4 Banks under receivership and liquidation

There are a total of 577 closed banks as at December 31, 2011 under PDIC receivership and liquidation including the 29 banks that were closed in 2011. The total estimated realizable value of assets and liabilities of the banks amounted to Php28.138 billion and Php114.438 billion, respectively.

26. RELATED PARTY TRANSACTION

The Corporation does not have dealings with related parties involving transfer of resources and obligations.

27. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

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

27.1 Market risk

The Corporation measures and manages its rate sensitivity position to ensure 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.

27.2 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, and when investing activities are not prudently exercised to consider risk/reward relationships of market factors and established parameters.

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 collateral requirements as secondary source of payment. Moreover, 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.

a. Maximum exposures to credit risk taking account of collateral

The table below provides the analysis of the maximum exposure to credit risk of the Corporation's loans and available-for-sale investments – equity securities, before and after taking into account collateral held or other credit:

	2011		
	Gross Maximum Exposure	Fair value of collateral or credit enhancement	Net Exposure
Loans and receivables	42,316,610	26,789,163	15,527,447
Available-for-sale investments - equity securities	12,000,000	-	12,000,000
Total credit risk exposure	54,316,610	26,789,163	27,527,447

	2010		
	Gross Maximum Exposure	Fair value of collateral or credit enhancement	Net Exposure
Loans and receivables	36,263,025	26,757,980	9,505,045
Available-for-sale investments - equity securities	12,000,000	-	12,000,000
Total credit risk exposure	48,263,025	26,757,980	21,505,045

27.3 Liquidity risk

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

a. Analysis of financial liabilities by maturity

The table below summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2011.

	On demand	Up to 3 months	> 3 up to 12 months	> 1 up to 5 Years
As at December 31, 2011				
Accounts payable and other liabilities	-	1,300,992	389,175	-
Insured deposit claims payable	3,961,810	-	-	-
Loans payable	1,613,832	-	1,500,000	50,753
	5,575,642	1,300,992	1,889,175	50,753
As at December 31, 2010				
Accounts payable and other liabilities	-	1,020,763	387,389	-
Insured deposit claims payable	7,551,471	-	-	-
Loans payable	-	-	4,419,000	50,753
	7,551,471	1,020,763	4,806,389	50,753
	> 5 up to 10 years	> 10 up to 20 years	Over 20 years	Total
As at December 31, 2011				
Accounts payable and other liabilities	11,143,411	580,843	88,194	13,502,615
Insured deposit claims payable	-	-	-	3,961,810
Loans payable	50,289,079	13,052,000	212,200	66,717,864
	61,432,490	13,632,843	300,394	84,182,289
As at December 31, 2010				
Accounts payable and other liabilities	1,952,724	8,479,429	77,584	11,917,889
Insured deposit claims payable	-	-	-	7,551,471
Loans payable	54,804,608	13,119,642	212,200	72,606,203
	56,757,332	21,599,071	289,784	92,075,563

28. CASH FLOWS INFORMATION

The taxes charged against the tax expenditure fund (TEF) are Php231.315 million and Php275.337 million in 2011 and 2010, respectively. The amounts pertain to income from tax subsidy for 2011 of Php1.713 billion and Php2.442 billion in 2010 (Note 17) net of collections from the Bureau of Treasury of the final withholding taxes (FWT) on interest income on investments charged against the TEF of Php1.482 billion in 2011 and Php2.102 billion in 2010. Subsequently, the amounts of FWT on interest income on investments are presented in the Statement of Cash Flows under the cash flows from financing activity.



Board of Directors & PDIC Management

BOARD OF DIRECTORS



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Chairman

Secretary, Department of Finance (DOF)
Chairman, Land Bank of the Philippines (LBP)
Chairman, National Power Corporation
Member, Monetary Board of the Bangko Sentral ng Pilipinas (BSP)
Former Secretary, Department of Trade and Industry
Former Member, Global Executive Board, Ernst & Young
Former Member, Global Board, Andersen Consulting
Former Area Managing Partner, Asia Pacific Assurance Practice, Andersen Worldwide
Former Chairman and Managing Partner, SGV & Co.



Hon. Valentin A. Araneta¹
Vice Chairman

President, Philippine Deposit Insurance Corporation (PDIC)
Member, Executive Council, Research and Guidance Committee, Audit Committee,
and Asia Pacific Regional Committee; International Association of Deposit Insurers (IADI)
Director and Corporate Secretary, Financial Executives Institute of the Philippines (FINEX)
Former President and Chief Operating Officer, Rizal Commercial Banking Corporation
Former Independent Director, Metropolitan Bank & Trust Co.
Former Senior Executive Vice President, Philippine National Bank
Former Vice Chairman, Great Pacific Savings Bank
Former Member and Treasurer, Board of Trustees, University of Saint La Salle, Bacolod City

¹Assumed on June 16, 2011



Jose C. Nograles
Vice Chairman

(January 7, 2008 - May 31, 2011)

Former President, PDIC
Former Member, IADI
Former Chairman, Audit Committee, IADI
Former Senior Executive Vice President, LBP



Hon. Amando M. Tetangco, Jr.
Director
 Governor, Bangko Sentral ng Pilipinas
 Chairman, Monetary Board
 Chairman, Anti-Money Laundering Council
 Chairman, Phil. Int'l. Convention Center
 Director, PhilExim, National Development Corp.
 and National Home Mortgage Finance Corp.
 Former Deputy Governor, BSP



Protacio T. Tacandong
Director
 Chief Operating Officer, Reyes Tacandong & Co.
 Former Partner, Chief Finance & Administrative Officer,
 and Head of SGV Branches, SGV & Co.
 Former President, FINEX Davao
 Former President, Philippine Institute of Certified Public
 Accountants (PICPA)
 Former Partner-in-charge, SGV Mindanao Branches
 Former Supervising Partner, SGV Visayas Branches
 Former Partner-in-charge, SGV Cebu
 Former President, Davao City Chamber of Commerce
 and Industry, Inc.



Rogelio W. Manalo
Director
 Former Governor, Development Bank of the Philippines
 Former Alternate Member, Monetary Board, Central Bank
 of the Philippines
 Former Director, Philippine National Oil Company
 Petro-Chemical Dev't. Corp.
 Former OIC, Mimoso Golf and Country Club
 Former President, Clark Development Corp. Services, Inc.
 Former Director, Clark Development Corp.
 Former Director, Manpower Development and Youth Council



Rosalia V. De Leon²
Alternate Director
 Undersecretary, International Finance Group, DOF
 Former Chief of Staff, Secretary of Finance, DOF
 Former Director, International Finance Group, DOF
 Former Advisor, Philippine Executive Director,
 Asian Development Bank



Nestor A. Espenilla, Jr.
Alternate Director
 Deputy Governor, Supervision and Examination Sector, BSP
 Former Assistant Governor, BSP
 Former Managing Director, BSP
 Former Director, Supervisory Reports and Studies Office, BSP



Jeremias N. Paul, Jr.³
Alternate Director
 Undersecretary, Corporate Affairs Group, DOF
 Former Chairman, Board of Advisors, World Bank/
 International Monetary Fund Filipino Staff Association
 Former Assistant Secretary, International Finance
 Group, DOF

²Assumed in November 2011

³Member from August 23, 2010 to October 31, 2011

BOARD COMMITTEES

Board Audit Committee

The **Board Audit Committee (BoardAC)** 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 BoardAC emanates from the Audit Charter that provides a framework for an independent, objective assurance and consulting activity that will enhance control and internal audit support of sound corporate governance.



Director Protacio T. Tacandong
Chairman



Director Rogelio W. Manalo
Member



Deputy Governor Nestor A. Espenilla, Jr.
Member

BOARD COMMITTEES

Board Risk Management Committee

The **Board Risk Management Committee (BRMC)** oversees the identification of strategic risks and assesses the viability and capability of the Corporation to carry out its mandate. It recommends to the Board of Directors appropriate policies or changes in existing policies concerning risk assessment and risk management. The BRMC likewise monitors the adequacy, completeness, implementation, and effectiveness of the Corporation's risk management system, and recommends improvements when necessary.



Director Rogelio W. Manalo
Chairman



Undersecretary Rosalia V. De Leon
Member



Director Protacio T. Tacandong
Member



Undersecretary Jeremias N. Paul, Jr.
Member

EXECUTIVE COMMITTEE



Valentin A. Araneta
President



Imelda S. Singzon
Executive Vice President
Examination and Resolution Sector



Cristina Q. Orbeta
Executive Vice President
Receivership and Liquidation Sector



Sandra A. Diaz
Senior Vice President
Deposit Insurance Sector



Ma. Ana Carmela L. Villegas
Senior Vice President
Management Services Sector



Romeo M. Mendoza, Jr.
General Counsel
Legal Affairs Sector



Alma Teresa R. Malanog
Senior Vice President
Corporate Services Sector

MANAGEMENT COMMITTEE

Office of the President



Valentin A. Araneta
President



Maria Leonida Fres-Felix
Vice President
Corporate Affairs Group



Fely D. Reyes
Vice President
Internal Audit Group



Rhodora Gay R. Poliquit
Vice President
Risk Management Office



Marcelo E. Ayes⁴
Vice President
Office of the President



Ephyro Luis B. Amatong
Vice President
Office of the Board Chairman

⁴Assumed on March 5, 2012

MANAGEMENT COMMITTEE

Examination and Resolution Sector



Imelda S. Singzon
Executive Vice President



Josefina J. Velilla
Vice President
Resolution Group



Eden Tita J. Dizon
Vice President
Examination Group I



Shirley G. Felix
Vice President
Examination Group II

MANAGEMENT COMMITTEE

Receivership and Liquidation Sector



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Executive Vice President



Nancy L. Sevilla-Samson
Vice President
Receivership and Bank
Management Group



Teresita D. Gonzales
Vice President
Loans Management Group



Rosario C. Arnaldo
Vice President
Asset Management and Disposal
Group



Lilian I. Serna
Vice President
Receivership and Liquidation
Support Group

MANAGEMENT COMMITTEE

Deposit Insurance Sector



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Senior Vice President



Elizabeth E. Oller
Vice President
Claims Group



Irene D. Arroyo
Vice President
Treasury Group



Cynthia B. Marcelo
Vice President
Insurance Group

Legal Affairs Sector



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General Counsel



Ma. Antonette I. Brillantes-Bolivar
Vice President
Litigation and Investigation Group



Cristine C. Remollo
Vice President
Legal Services Group

MANAGEMENT COMMITTEE

Management Services Sector



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Senior Vice President



Ma. Ester D. Hanopol
Vice President
Corporate Planning Group



Geronimo V. Ambe
Vice President
Comptrollership Group



Maria Belinda C. San Jose
Vice President
Information Technology Group

Corporate Services Sector



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Senior Vice President



Nina Noreen A. Jacinto
Vice President
Administrative Services Group



Ma. Teresita V. Leido
Vice President
Human Resource Group

LIST OF OFFICERS

as of December 31, 2011

OFFICE OF THE PRESIDENT

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PRESIDENT

MA. CARMEN ROSARIO Z. RECITAS
ASSISTANT DEPARTMENT MANAGER II

JAROMME ZEUS KRISTOFFER C. CASTILLO I
EXECUTIVE ASSISTANT V

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EXECUTIVE ASSISTANT V

ABRAHAM LINCOLN Q. REMOLONA
EXECUTIVE ASSISTANT IV

CORNELIA D. RODRIGO
EXECUTIVE ASSISTANT IV

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EXECUTIVE ASSISTANT IV

JUDE THADDEUS T. LANUZA
EXECUTIVE ASSISTANT IV

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INTERNAL AUDIT GROUP

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Information Technology Audit Department

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DEPARTMENT MANAGER III

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CORPORATE EXECUTIVE OFFICER II

Public Assistance Department

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VICE PRESIDENT

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DEPARTMENT MANAGER III

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CORPORATE EXECUTIVE OFFICER II

Resolution Department II

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DEPARTMENT MANAGER III

FREDY S. GALOSMO
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DEPARTMENT MANAGER III

Examination & Resolution Support Department

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DEPARTMENT MANAGER III

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CORPORATE EXECUTIVE OFFICER II

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EXECUTIVE VICE PRESIDENT

RECEIVERSHIP AND BANK MANAGEMENT GROUP

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VICE PRESIDENT

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CORPORATE EXECUTIVE OFFICER II

Receivership and Bank Management
Department II

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DEPARTMENT MANAGER III

FERNANDO S. BOÑULA
CORPORATE EXECUTIVE OFFICER II

Receivership and Bank Management
Department III

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DEPARTMENT MANAGER III

IMELDA A. BARRO
CORPORATE EXECUTIVE OFFICER II

LEONOR S. SAMONTE
CORPORATE EXECUTIVE OFFICER II

Receivership and Bank Management
Department IV

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ASSISTANT VICE PRESIDENT

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CORPORATE EXECUTIVE OFFICER II

ELMER JUAN C. HABER
CORPORATE EXECUTIVE OFFICER II



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CORPORATE EXECUTIVE OFFICER II

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VICE PRESIDENT

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ARIEL M. ALCOBA
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Department II

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LOLITA M. LIM
CORPORATE EXECUTIVE OFFICER II

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DEPARTMENT MANAGER III

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BELTRAN-CARANDANG**
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CORPORATE EXECUTIVE OFFICER II

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CORPORATE EXECUTIVE OFFICER II

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MA. NENITA N. GAYLA
CORPORATE EXECUTIVE OFFICER II

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VICE PRESIDENT

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ASSISTANT DEPARTMENT MANAGER II

Records Control and Logistics Department

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ASSISTANT VICE PRESIDENT

EDITHA D. TUMANG
ASSISTANT DEPARTMENT MANAGER II

Financial Control and MIS Department

ROSSANA V. CASTALLA
DEPARTMENT MANAGER III

JOSEFINA B. PEREZ
CORPORATE EXECUTIVE OFFICER II

THELMA B. ARIAS
CORPORATE EXECUTIVE OFFICER II

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DEPARTMENT MANAGER III

MINVILUZ O. RUBRICO
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SENIOR VICE PRESIDENT

CLAIMS GROUP

ELIZABETH E. OLLER
VICE PRESIDENT

NELSON G. PORTACIO
CORPORATE EXECUTIVE OFFICER II

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ASSISTANT VICE PRESIDENT

EVANGELINE R. PANTALUNAN
ASSISTANT DEPARTMENT MANAGER II

NERILYN O. ABOGADO
CORPORATE EXECUTIVE OFFICER II

MONINA J. CORNISTA
CORPORATE EXECUTIVE OFFICER II

NAPOLEON D. JOSE
CORPORATE EXECUTIVE OFFICER II

WILFEDO B. RAFALES
CORPORATE EXECUTIVE OFFICER II

Claims Processing Department

ELAINE B. DETICIO
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JOAN S. DE LEON
CORPORATE EXECUTIVE OFFICER II

MILA O. TAMAYO
CORPORATE EXECUTIVE OFFICER II

TREASURY GROUP

IRENE D. L. ARROYO
VICE PRESIDENT

Claims Settlement Department

MERLIE M. CAÑAVERAL
DEPARTMENT MANAGER III

ROSENDA L. BARRIL
ASSISTANT DEPARTMENT MANAGER II

ELOIDA B. INDORTE
CORPORATE EXECUTIVE OFFICER II

Treasury Department

PETER NOEL P. HERRERA
ASSISTANT VICE PRESIDENT

ROSITA R. ARELLANO
ASSISTANT DEPARTMENT MANAGER II

ESTELITA R. DATINGALING
ASSISTANT DEPARTMENT MANAGER II

INSURANCE GROUP

CYNTHIA B. MARCELO
VICE PRESIDENT

TESSIE P. VELASQUEZ
CORPORATE EXECUTIVE OFFICER II

Insurance Department

DAISY ANN T. ALAGOS
CORPORATE EXECUTIVE OFFICER II

Insurance Support Department

MA. THERESA B. SALCOR
DEPARTMENT MANAGER III

EMERSON M. LOMIO
CORPORATE EXECUTIVE OFFICER II

SALUD E. MARGAJAY
CORPORATE EXECUTIVE OFFICER II

LYN D. BAGNES
CORPORATE EXECUTIVE OFFICER II

LEGAL AFFAIRS SECTOR

ROMEO M. MENDOZA, JR.
GENERAL COUNSEL

MA. SADDY MILA ENA B. RILLORTA
ASSISTANT DEPARTMENT MANAGER II

LITIGATION AND INVESTIGATION GROUP

MA. ANTONETTE I. BRILLANTES-BOLIVAR
VICE PRESIDENT

Litigation Department

GILROY V. BILLONES
DEPARTMENT MANAGER III

JOHN HENRY M. PASCUAL
ASSISTANT DEPARTMENT MANAGER II

ROMEL M. BARRERA
ASSISTANT DEPARTMENT MANAGER II

MILDRED J. MARQUEZ
ASSISTANT DEPARTMENT MANAGER II

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as of December 31, 2011

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TORRES, CHONA H.
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.

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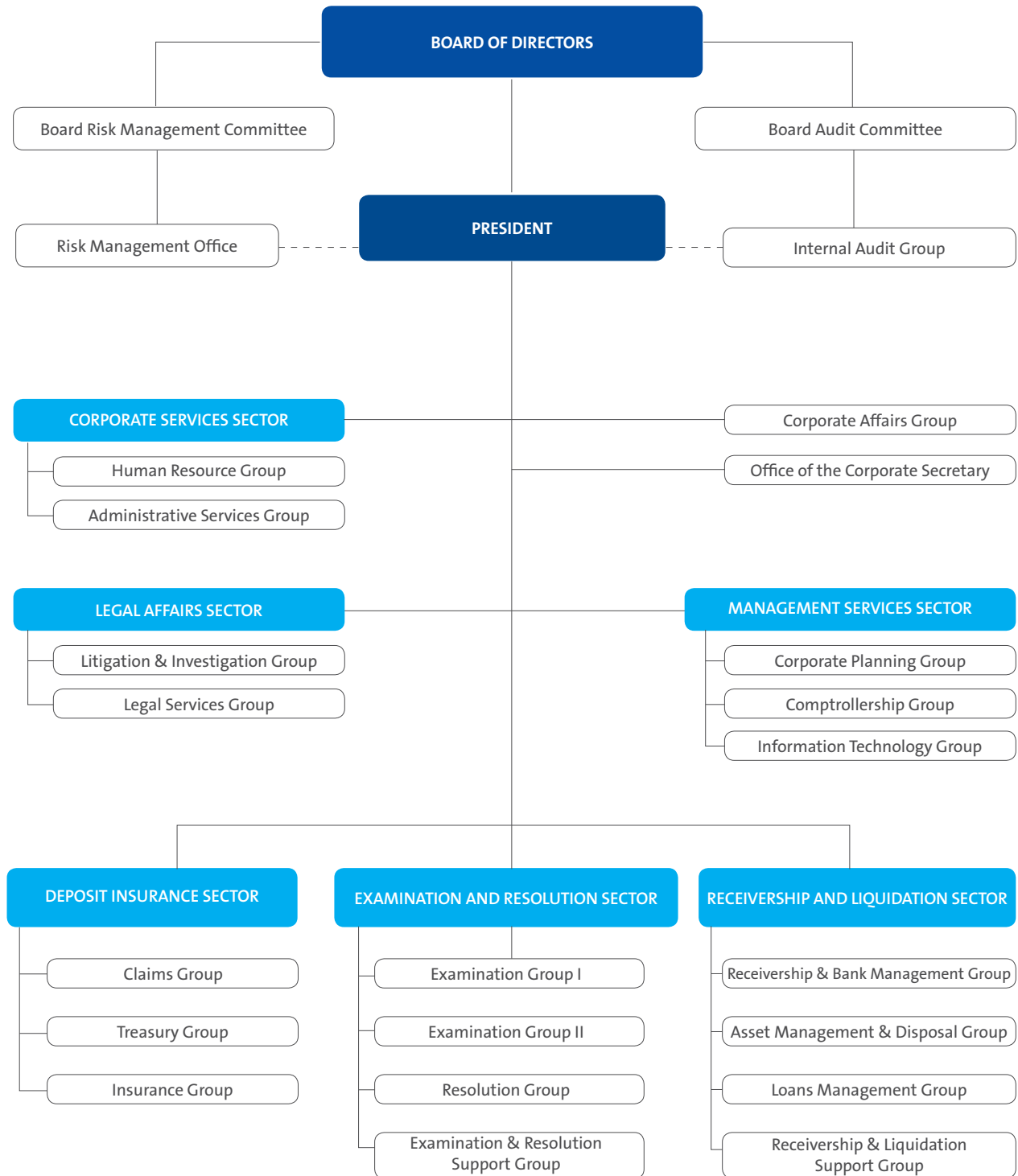
VALDEZCO, MICHAEL R.
VALENCIA, REYNALISA L.
VALENCIA, ROSEANN A.
VALLADA, MA. JOSELYN L.
VALLADO, SUSAN VICTORIA P.
VARGAS, RICKY R.
VELASCO, CARLOTA M.
VELASCO, JANET L.
VELASQUEZ, TESSIE P.
VELEZ, RENATO P.
VELILLA, JOSEFINA J.
VERGARA, NORMAN Q.
VESTAL, MA. TERESA C.
VICTORIA, GENOVEVA A.
VIDAL, LYRA ANGELA M.
VILLALUNA, NIÑO RAY L.
VILLANUEVA, MA. THERESA S.
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VILLARAMA, MARIA MELANIE S.
VILLAREAL, JOVAL L.
VILLARET, JOSE JR. G.
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as of December 31, 2011







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