



## The Philippine Banking Industry

The number of operating banks as of end-June 2001 was further reduced to 938 banks, 22 less than the number a year ago. By nature of operations, these consisted of: 44 commercial banks, 109 thrift banks and 785 rural and cooperative banks (inclusive of 52 cooperative banks). In terms of ownership, these included: 13 foreign bank branches, 7 subsidiaries (5 commercial banks and 2 thrift banks) and 3 government banks. Overall banking operations continued to be relatively normal even as asset growth remained subdued and earnings faced pressures.

Solvency and liquidity positions slightly weakened but remained at acceptable levels. On the other hand, profitability continued to be weighed down by the need to deal with deteriorating asset quality. However, substantial earnings from extraordinary gains arising from asset recoveries helped cushion the banking system's bottomline figures. Consequently, returns on assets and on equity slightly improved to 0.4 percent and 3.1 percent, respectively (Table 1).

The quality and productivity of bank assets was further eroded by the hike in the inventory of non-performing loans and acquired properties. NPA ratio rose further to 13.6 percent from 12.3 percent a year ago. Meanwhile, NPA coverage ratio was maintained at 29.8 percent as in the previous year. The overall asset mix also became increasingly more inclined to investments in government securities relative to loans, in part, due to higher liquidity reserve requirements and, in part, due to more cautious lending policies.

Deposit mobilization played a major role in stabilizing the banking system and sustaining modest asset growth. This was supported by fresh capital infusion by shareholders.

Foreign bank branches and subsidiaries further gained ground during the period under review. They increased their share of total assets to 15.7 percent by sustaining above industry asset growth. Meanwhile, domestic private universal banks continued to dominate the banking industry even though their contribution declined to 55.9 percent from 57.3 percent last year (Chart 1). On the other hand, the

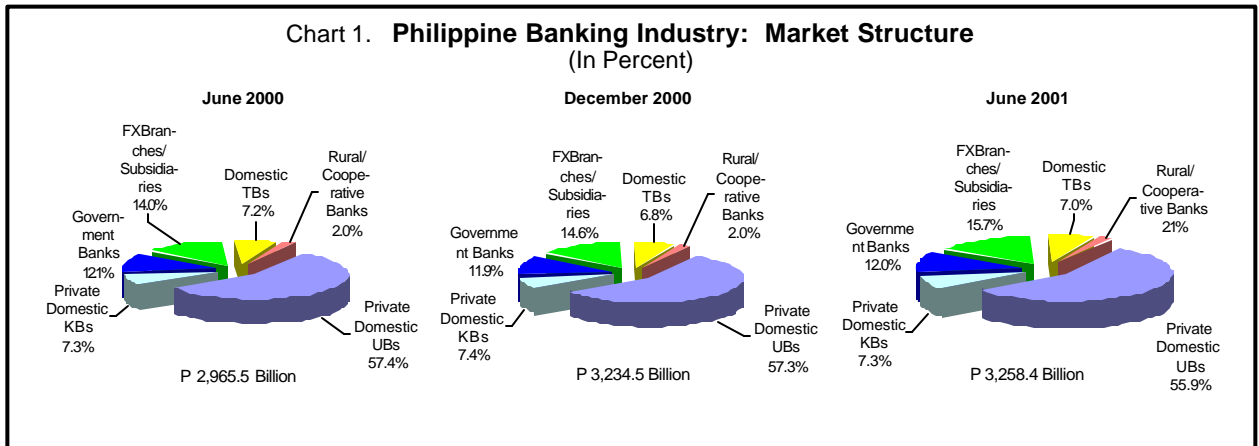


share to total industry assets of other bank categories were more or less maintained.



Table 1. **Philippine Banking Industry: Selected Performance Indicators**

	1999 <sup>1/</sup>	2000 <sup>1/</sup>	End-June	
			2000 <sup>1/</sup>	2001 <sup>6/</sup>
<b>Growth Rates</b> (year-on-year)				
<b>Balance Sheet</b>				
Total assets <sup>1/</sup>	6.7	9.5	6.3	9.9
Loans (gross) <sup>2/</sup>	2.2	3.0	0.1	4.8
Allowance for probable losses	46.6	16.4	33.8	18.8
Loans (net)	0.3	2.1	1.7	3.8
Investments (gross)	9.7	28.5	15.3	25.1
Allowance for probable losses	(9.7)	155.0	(36.8)	58.0
Investments (net)	9.8	27.9	15.7	25.0
Other assets	37.8	17.9	26.7	15.4
Deposits	9.4	8.6	7.7	13.0
Borrowings	5.4	18.1	2.1	4.6
Total capital accounts <sup>3/</sup>	9.9	2.1	5.7	4.3
Capital stock	19.9	3.5	10.8	4.3
<b>Income Statement</b> (vs. same period a year ago)				
Net income after tax (NIAT)	(46.5)	(3.0)	(59.8)	42.2
Net operating income	(82.3)	81.7	(62.8)	7.2
Operating income	(8.9)	(8.7)	(11.6)	14.2
Net interest income	(18.6)	(7.6)	(11.2)	8.2
Non-interest income	19.7	(10.7)	(12.3)	27.0
Operating expenses	(1.1)	(10.4)	(3.9)	14.6
Bad debt expenses/Provisions	(5.9)	(48.9)	(36.6)	50.1
Other operating expenses	0.8	3.5	4.5	9.0
Extraordinary Credits/(Charges)	22.8	(25.3)	(28.4)	47.3
<b>Selected Ratios</b> (end of period)				
<b>Liquidity</b>				
Cash and due from banks to deposits	17.6	17.2	17.8	16.4
Loans (gross) to deposits	91.3	86.6	87.0	80.7
<b>Asset Quality</b>				
Non-performing loans (NPL) ratio	12.7	14.9	14.5	16.6
NPL coverage ratio <sup>4/</sup>	45.4	43.7	45.1	44.8
Non-performing assets (NPA) to total assets (gross)	11.2	12.6	12.3	13.6
NPA coverage ratio <sup>5/</sup>	30.0	28.6	29.8	29.8
<b>Capital Adequacy</b>				
Net worth-to-risk assets ratio	17.5	16.2	17.0	16.8
Total capital accounts to total assets	14.5	13.6	14.4	13.7
<b>Profitability</b> <sup>6/</sup>				
Return on assets (ROA)	0.4	0.4	0.1	0.4
Return on equity (ROE)	2.9	2.6	1.0	3.1
<hr/>				
<sup>1/</sup> Revised				
<sup>2/</sup> Preliminary				
<sup>1/</sup> Adjusted to net off the account "Due from Head Office" with "Due to Head Office" of branches of foreign banks.				
<sup>2/</sup> Inclusive of interbank loans receivable				
<sup>3/</sup> Inclusive of the portion of the "Net Due To/From Head Office" which qualified as capital				
<sup>4/</sup> Ratio of loan loss reserves to NPL				
<sup>5/</sup> Ratio of loan loss reserves (for loans and ROPOA) to NPAs				
<sup>6/</sup> Annualized				



### Physical Composition

The physical operating network of the Philippine banking system consisted of 7,555 banking offices (Schedule 1) and 3,882 automated teller machines (ATMs) as of end-June 2001. Of these banking offices, 57 offices were situated overseas.

The number of banking offices (net of closures) increased by 2 offices from last year while the number of ATMs also increased by 295 units.

**Table 2. Number of Automated Teller Machines (ATMs) of Commercial and Thrift Banks**

	<b>1999</b>	<b>2000</b>	<b>End-June</b>	
			<b>2000</b>	<b>2001</b>
On-site	2,867	2,972	2,912	3,108
Off-site	618	708	675	774
<b>Total</b>	<b>3,485</b>	<b>3,680</b>	<b>3,587</b>	<b>3,882</b>

The entry of one cooperative bank (New Teachers Cooperative Bank) and the establishment of 17 new branches contributed to the expansion. The new branches set up were linked to 11 rural banks, 5 commercial banks and 1 thrift bank. However, the branching activities of commercial banks were confined to the re-opening of the branches of closed commercial banks. New branches established for the period were relatively fewer than the 45 branches established last semester and the 37 branches set up during the same period a year ago.



Collectively, these openings more than made up for the impact of the the completion of another merger case and the closure of 8 problem banks. The merger of Banco de Oro with Dao Heng Bank (a subsidiary of foreign banks) was effected on 15 June 2001. This reduced the number of foreign bank subsidiaries to 7 from 8 as of end-December 2000. Meanwhile, the closure of 8 rural/cooperative banks further brought down the number of rural/cooperative banks. The decline was, however, tempered by the conversion of 3 thrift banks into regular rural banks.

The regional distribution of banking offices was slightly modified during the first semester of 2001 in favor of 6 regions, namely: the National Capital Region, Ilocos Region, Central Visayas, Cordillera Autonomous Region (CAR), Central, Northern and Western Mindanao. Nonetheless, banking offices remained relatively concentrated in the National Capital Region and in Southern Tagalog. Between them, they were host to 3,922 banking offices or 52.3 percent of total (Table 3). Accordingly, these regions had the highest density ratios (Table 4). The bank density ratios per city/municipality were generally maintained at the end-December 2000 levels.

Table 3. **Philippine Banking Offices: Regional Profile**

	<b>2000</b>	<b>End-June 2001</b>		
		<b>Total</b>	<b>Head Offices</b>	<b>Branches</b>
National Capital Region (NCR)	2,630	2,643	114	2,529
Region I - Ilocos	368	372	78	294
Region II - Cagayan	202	201	37	164
Region III - Central Luzon	781	779	117	662
Region IV - Southern Tagalog	1,289	1,279	197	1,082
Region V - Bicol	215	208	58	150
Region VI - Western Visayas	400	399	82	317
Region VII - Central Visayas	480	481	64	417
Region VIII - Eastern Visayas	129	128	30	98
Region IX - Western Mindanao	109	112	17	95
Region X - Northern Mindanao	209	210	42	168
Region XI - Southern Mindanao	374	372	44	328
Region XII - Central Mindanao	72	72	12	60
Cordillera Autonomous Region (CAR)	99	101	20	81
Autonomous Region of Muslim Mindanao (ARMM)	45	45	6	39
CARAGA	95	97	20	77
<b>Nationwide</b>	<b>7,497</b>	<b>7,499</b>	<b>938</b>	<b>6,561</b>



Banks have also turned to non-traditional delivery channels such as the Internet and mobile phones to reach out to more clients. As of end-June 2001, 155 banks were already accessible by electronic mail and/or maintained their own website. This was 50 banks more than the number a year ago. Moreover, there were 31 banks (24 commercial banks and 7 thrift banks) already offering transactional electronic banking services with special authority from the Monetary Board.

Table 4. **Philippine Banking System: Density Ratio**

<b>A. Philippine banking offices per city/municipality</b>	<b>2000</b>	<b>End-June 2001</b>
Philippines	5	5
National Capital Region (NCR)	155	155
Outside NCR	3	3
Region I - Ilocos	3	3
Region II - Cagayan	2	2
Region III - Central Luzon	6	6
Region IV - Southern Tagalog	6	6
Region V - Bicol	2	2
Region VI - Western Visayas	3	3
Region VII - Central Visayas	4	4
Region VIII - Eastern Visayas	1	1
Region IX - Western Mindanao	1	1
Region X - Northern Mindanao	3	3
Region XI - Southern Mindanao	5	5
Region XII - Central Mindanao	2	2
Cordillera Autonomous Region (CAR)	1	1
Autonomous Region of Muslim Mindanao (ARMM)	1	1
CARAGA	1	1
<b>B. No. of persons served by each banking office <sup>1/</sup></b>		
Philippines	10,184	10,286
National Capital Region (NCR)	3,950	3,963
Outside NCR	13,553	13,728
Region I - Ilocos	11,268	11,240
Region II - Cagayan	13,932	14,137
Region III - Central Luzon	9,856	9,977
Region IV - Southern Tagalog	8,786	8,974
Region V - Bicol	22,117	23,056
Region VI - Western Visayas	15,822	16,002
Region VII - Central Visayas	11,550	11,637
Region VIII - Eastern Visayas	29,041	29,573
Region IX - Western Mindanao	28,935	28,493
Region X - Northern Mindanao	13,277	13,356
Region XI - Southern Mindanao	14,005	14,260
Region XII - Central Mindanao	36,961	37,393
Cordillera Autonomous Region (CAR)	14,117	14,052
Autonomous Region of Muslim Mindanao (ARMM)	48,599	48,997
CARAGA	22,994	22,789

<sup>1/</sup> Philippine population based on National Statistics Office (NSO) data

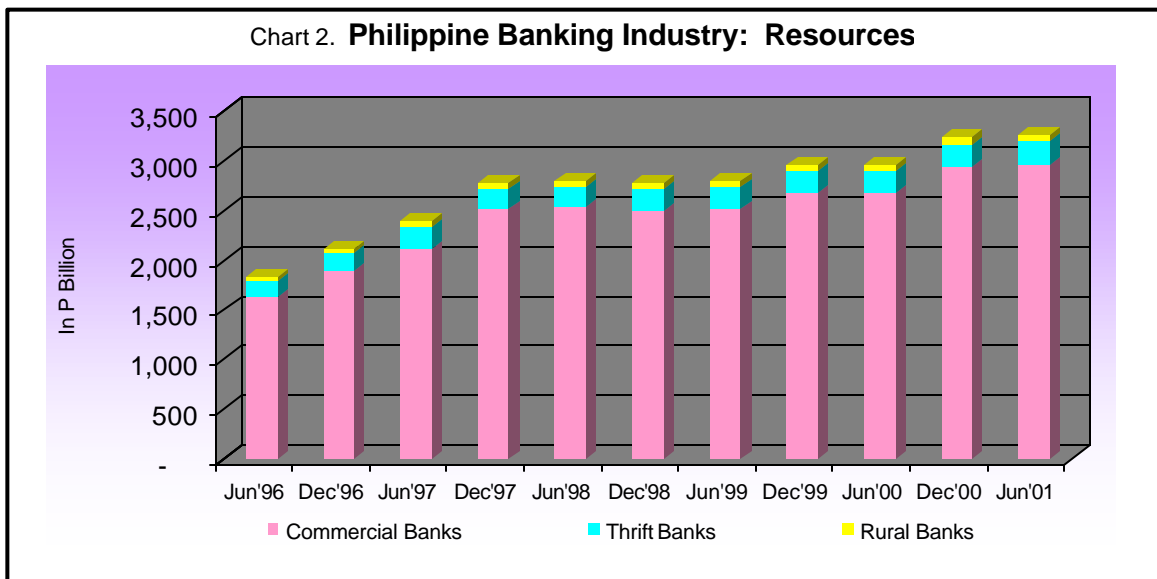


## Major Balance Sheet Trends

Total banking system assets grew at a more accelerated pace of 9.9 percent on a year-on-year basis as of end-June 2001 (Table 1). This expansion was primarily supported by new deposits and to a lesser extent by additional borrowings and fresh capital infusion by shareholders.

Asset growth continued to be led by the commercial banking industry, followed by the thrift banking industry. Commercial banks reported a year-on-year growth of 10.0 percent. This was basically attributed to the 25.4 percent expansion in assets of foreign bank branches. Thrift banks' asset base also grew faster at 8.8 percent. Rural/cooperative banks likewise reported an asset growth of 7.7 percent.

These developments brought the combined asset base of the Philippine banking system to P3,258.4 billion as of end-June 2001 (Chart 2). The bulk of these assets were in the form of loans. However, the proportion of loans (net) to total assets had been steadily declining, from a peak of 66.0 percent at end-June 1996 to a low of 50.0 percent at end-June 2001 (Table 5).





**Table 5. Philippine Banking Industry: Balance Sheet Structure**  
(In Percent)

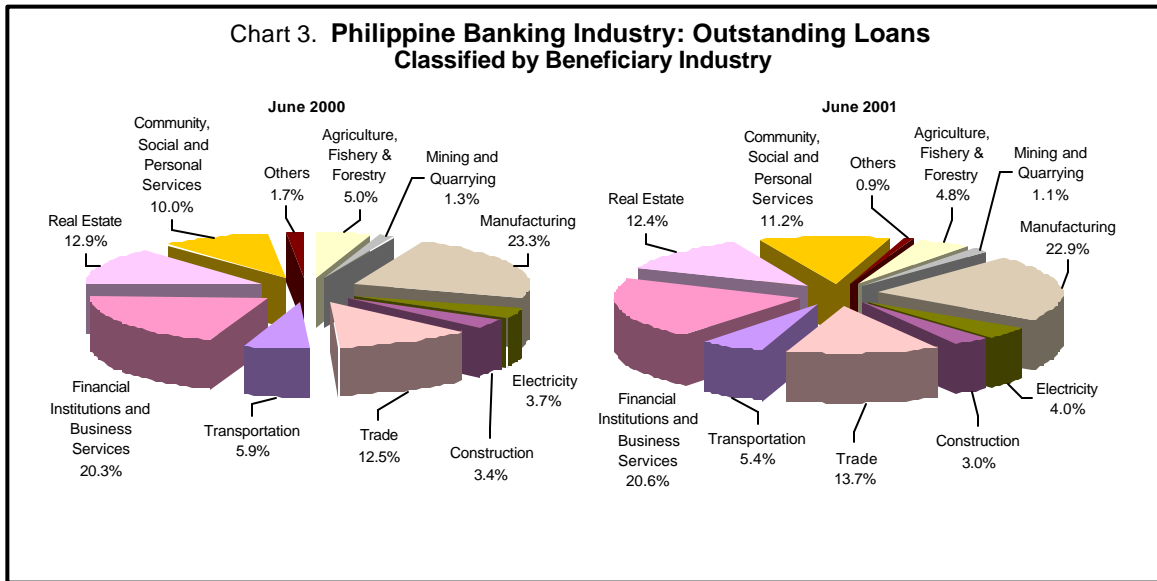
<u>Major Accounts</u>	<u>1999</u>	<u>2000</u>	<u>End-June</u>	
			<u>2000<sup>1/</sup></u>	<u>2001<sup>1/</sup></u>
<b>Total Assets</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Cash and due from banks	11.4	11.1	11.6	11.0
Loans (net) <sup>1/</sup>	55.9	52.2	52.9	50.0
Investments	17.4	20.3	19.7	22.4
Other assets	15.3	16.4	15.8	16.6
<b>Total Liabilities and Capital</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Deposits	65.0	64.5	65.1	66.9
Borrowings	11.8	12.9	11.7	11.1
Other liabilities	8.7	9.1	8.8	8.3
Capital accounts	14.5	13.5	14.4	13.7

<sup>1/</sup> Revised  
<sup>1/</sup> Preliminary, data on rural banks as of end-March 2001  
<sup>1/</sup> Inclusive of interbank loan receivable

**Loans.** Lending growth gathered more speed but remained relatively slow compared to the pre-crisis period. Year-on-year growth significantly improved to 4.8 percent from a 0.1 percent negligible growth a year ago. The expansion continued to be led by the thrift banking industry. The commercial banking and rural/cooperative banking industries likewise resumed more active lending operations. Hence, their loan portfolios expanded by 4.7 percent and 2.2 percent, respectively. This was at least an improvement from the very tentative lending activity a year ago.

Foreign bank branches and subsidiaries were still the most aggressive creditors. Foreign bank branches accelerated their lending activities by a very substantial 37.4 percent compared to just 9.7 percent a year ago. Foreign bank subsidiaries, playing second lead, also stepped up lending activities by 32.7 percent. Meanwhile, domestic banks continued to be selective as indicated by their negative 0.3 percent loan growth.





All industries benefited from more active lending operations, except three sectors (construction, mining and quarrying, and transportation). Community, social and personal services showed the highest increment of 17.8 percent as foreign banks targeted consumer lending. The trade sector was next with a 15.3 percent increase in outstanding loans. The utilities sector obtained the third fastest expansion rate of 10.9 percent.

Meanwhile, the grant of new loans to the manufacturing sector was sustained but at a decelerated rate of 2.9 percent. Nonetheless, this sector continued to be the major beneficiary of the outstanding exposures of banks (Chart 3). Financial institutions and business services accounted for the next largest component as its share inched up to 20.6 percent due to the 6.4 percent additional loans for the period. On the other hand, lendings to both the agricultural and real estate sectors showed the least expansion at 1.5 percent and 1.0 percent, respectively. Real estate loans stood at P218.0 billion. This accounted for 12.4 percent of total loan portfolio (gross).

Funds set aside for small and medium scale enterprises (SMEs) were three times the minimum amount required under R.A. No. 6977 (as amended by R.A. No. 8289). Nonetheless, the overall compliance ratio of the banking industry slightly declined to 24.6 percent from 25.3 percent. Funds for SMEs as of end-June 2001 stood at P236.4 billion.



On the other hand, total loanable funds generated for agrarian reform and agricultural credits grew by 5.4 percent to P916.6 billion as of end-March 2001. Accordingly, the compliance ratio of the banking industry rose to 29.8 percent from 27.4 percent a year ago.

Auto loans and credit card receivables grew by 7.9 percent and 25.8 percent, respectively. Both growth rates were considerably higher than the 2.6 percent increase achieved in auto loans the previous year and the 7.5 percent expansion in credit card receivables a year ago. The 13.6 percent increment in auto loans of thrift banks more than made up for the 5.3 percent reduction in the auto loans of commercial banks. Thrift banks likewise more than doubled their credit card operations as indicated by the 149.8 percent increase in their credit card receivables. This increment was almost 7 times the 22.8 percent expansion posted by the commercial banks. Their credit card receivables reached P22.6 billion, accounting for 1.4 percent of their total loan portfolio.

Looking at the overall picture, the status of these loan exposures remained manageable, with performing accounts constituting the bulk (83.4 percent) of the P1,758.7 billion loan portfolio (gross). However, the considerable increase in non-performing loans (NPLs) was notable. NPLs rose by 19.4 percent (vs. 7.4 percent a year ago) as repayments of maturing obligations faltered. The lower repayment, in turn, was a consequence of the slowdown in economic activity.

Commercial banks continued to be the main drivers of the banking system's NPL growth. Their NPLs grew by 21.2 percent (vs. 11.9 percent last year). Hence, their NPL ratio climbed to 17.0 percent from 14.6 percent in end-June 2000 (Table 13). Likewise, thrift banks posted a 6.6 percent increase in NPLs. This completely negated the 29.4 percent contraction a year ago. In contrast, there was sustained contraction in NPLs of rural and cooperative banks (RBs/CBs). These declined by 4.6 percent from 2.6 percent a year ago.

The buildup in loan loss provisioning slowed down to 18.8 percent from 33.8 percent a year ago despite the uptrend in NPLs. Accordingly, NPL coverage ratio slightly declined to 44.8 percent from 45.1 percent (Chart 4). Among the major banking categories, rural/cooperative banks had the least NPL coverage ratio of 28.9 percent.



Meanwhile, collection efforts were intensified through *dacion en pago* arrangements or through the foreclosure of loan collaterals. Consequently, Real and Other Properties Owned/Acquired (ROPOAs) piled up further by 27.7 percent to P174.8 billion. The expansion in ROPOAs was somewhat reined in by the decelerated growth of commercial banks' ROPOAs, to 28.9 percent from 58.3 percent last year. ROPOAs of thrift and rural/cooperative banks also assumed an uptrend. Thrift banks reported a 19.1 percent increase while rural/cooperative banks had a 37.9 percent increment.

The buildup in the inventory of NPLs and ROPOAs subsequently raised non-performing assets (NPAs) to P466.1 billion. Hence, NPA ratio went up to 13.6 percent from 12.3 percent in end-June 2000 (Table 6).

To protect bank solvency from the impact of these negative developments on overall asset quality, the allowance for probable losses was increased by 22.3 percent to P139.0 billion (vs. P113.6 billion in end-June 2000). Thus, NPA coverage ratio was maintained at 29.8 percent (Chart 5).

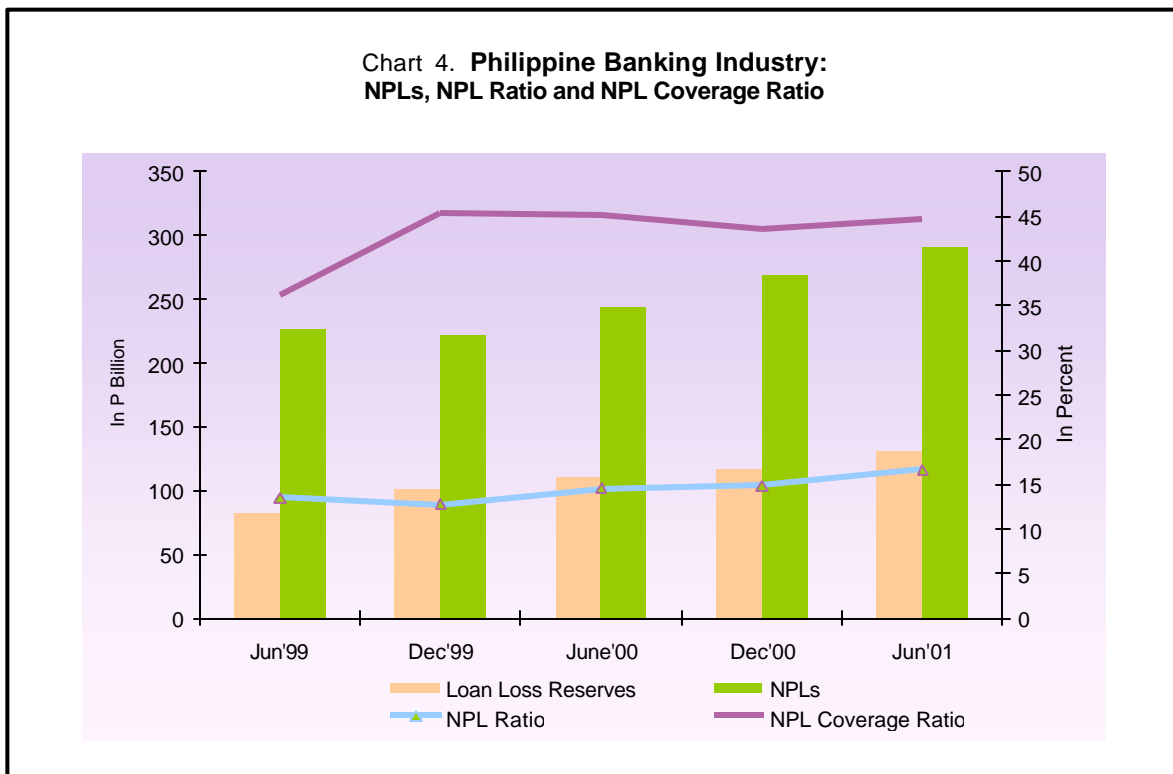




Table 6. **Philippine Banking System: Asset Quality Indicators**

Major Accounts	1999 <sup>1/</sup>	2000 <sup>1/</sup>	End-June	
			2000 <sup>1/</sup>	2001
<b>Levels (P Billion)</b>				
Total Loan Portfolio (TLP), gross <sup>1/</sup>	1,752.6	1,804.8	1678.3	1,758.7
Non-performing Loans (NPL)	222.0	268.8	244.0	291.3
Loan Loss Reserves (LLR)	100.9	117.4	109.9	130.6
ROPOA (gross) <sup>2/</sup>	122.4	158.5	136.8	174.8
Restructured Loans (RL), gross	76.8	103.7	84.4	112.0
Non-performing Assets (NPAs) <sup>3/</sup>	344.4	427.3	380.8	466.1
<b>Growth Rates (year-on-year)</b>				
TLP <sup>1/</sup>	2.2	3.0	0.1	4.8
NPL	17.4	21.1	7.4	19.4
LLR	46.6	16.4	33.8	18.8
ROPOA (gross) <sup>2/</sup>	92.8	29.4	49.8	27.7
RL (gross)	56.1	35.0	44.0	32.7
NPAs <sup>3/</sup>	36.3	24.1	19.6	22.4
<b>Selected Ratios</b>				
RL to TLP	4.4	5.7	5.0	6.4
LLR to TLP	5.8	6.5	6.5	7.4
NPL Ratio	12.7	14.9	14.5	16.6
NPL Coverage <sup>4/</sup>	45.4	43.7	45.1	44.8
NPA Ratio	11.2	12.6	12.3	13.6
NPA Coverage <sup>5/</sup>	30.0	28.6	29.8	29.8

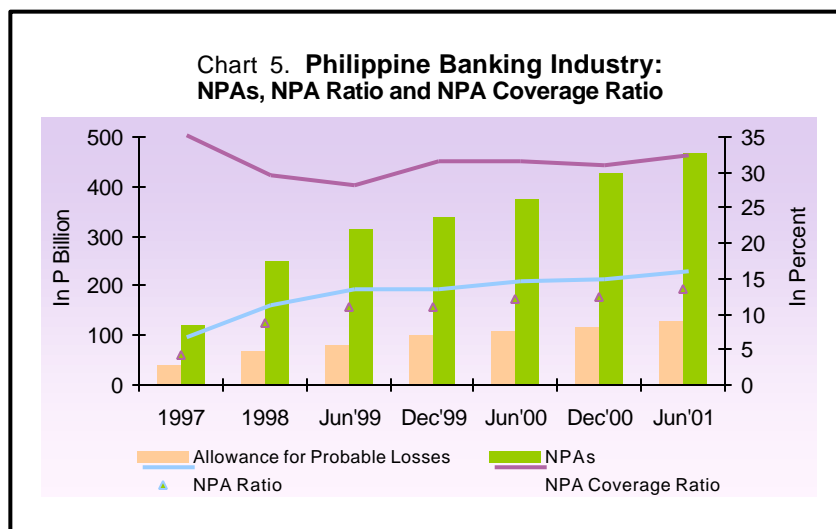
1/ Inclusive of interbank loan receivables

2/ ROPOA refers to Real and Other Properties Owned or Acquired

3/ NPA refers to NPLs plus ROPOA (gross)

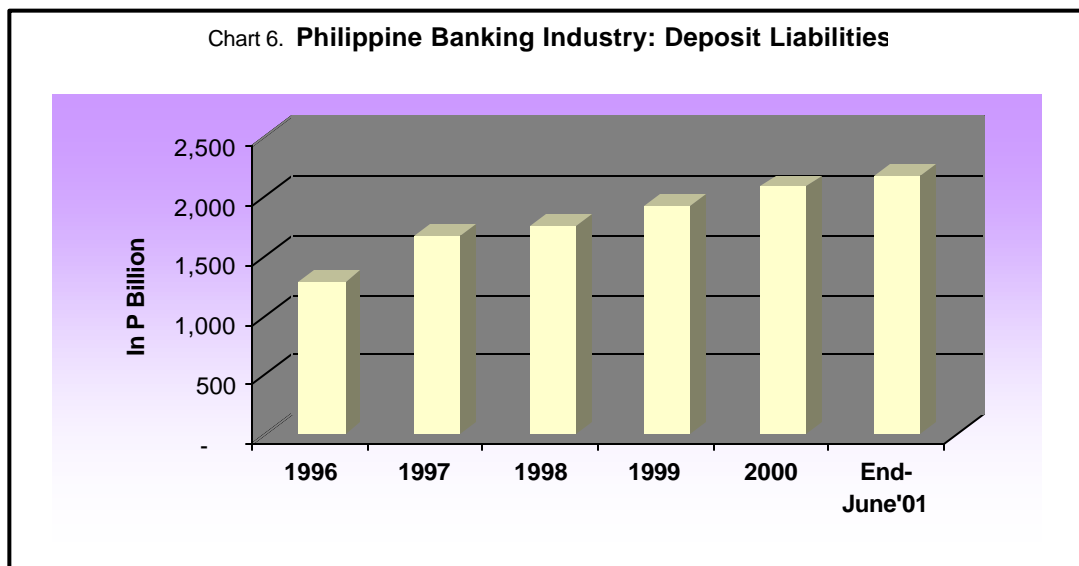
4/ Ratio of loan loss reserves to NPL

5/ Ratio of loan loss reserves (for loans and ROPOA) to NPAs



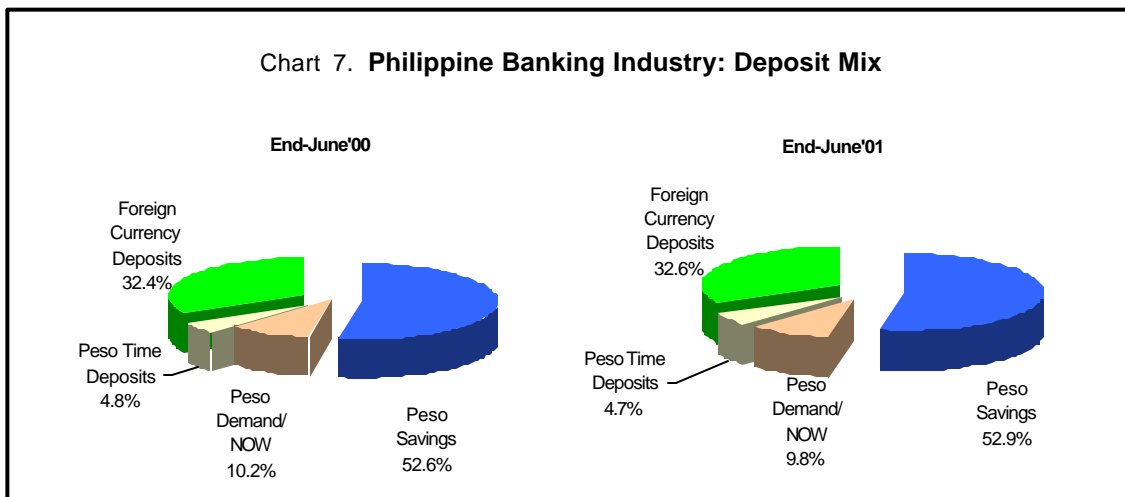


**Deposits.** Deposits continued to be main source of funding. However, new deposits for the period were largely channeled to investments in government securities. Thus, loans-to-deposit ratio slid to 80.7 percent from 87.0 percent a year ago.



Deposit-taking activities increased by 13.0 percent from 7.7 percent a year ago. The accelerated deposit growth was attributed primarily to the 33.3 percent increment in deposit liabilities of foreign bank branches. Domestic private regular commercial banks became the second lead contributor as they posted an unprecedented 31.9 percent hike in deposit liabilities. This increment surpassed the 28.7 percent increase in the deposits of the commercial bank subsidiaries of foreign banks. Last year, the commercial bank subsidiaries of foreign banks were the lead deposit-driver with their 71.3 percent deposit growth. Thrift and rural/cooperative banks also posted faster growth in deposit liabilities at 14.1 percent and 11.4 percent, respectively. Domestic universal banks and government banks reported relatively minimal increments in their deposit accounts.

New deposits for the period of P249.9 billion was 82.0 percent larger than the P137.3 billion generated from new accounts during the same period a year ago. The bulk of these funds were still generated by domestic banks, except for the 26.3 percent that were mobilized by foreign bank branches. The combined deposit liabilities of foreign bank branches and subsidiaries increased to 14.2 percent (vs. 12.0 percent last year) of total deposits liabilities of the banking sector.



In terms of deposit accounts, peso deposit accounts still comprised the bulk (67.4 percent) of the P2,179.5 billion total deposit liability base as of end-June 2001 (Chart 7). However, foreign currency deposits continued to exhibit faster growth rate. Foreign currency deposits, after exhibiting a 13.8 percent year-on-year growth, now stood at P710.8 billion. This increment was more than double its 6.1 percent increment the previous year. Nevertheless, the 12.6 percent growth in peso deposit accounts was significantly better than the 8.4 percent deposit growth realized a year ago.

The maturity profile of these deposit liabilities remained predominantly short-term. However, there was a slow shift to long-term deposits accounts as manifested by the increased share of time deposit accounts with maturities between 1 to 5 years and/or more than 5 years.

**Borrowings.** New borrowings of P16.1 billion provided supplemental financing for lending and investment operations. This raised borrowings to P363.4 billion, up by 4.6 percent from its year ago level.

Thrift and rural banks led the expansion in borrowings. Their borrowings increased by 12.7 percent and 6.2 percent, respectively. This was a reversal of the previous year's financing scheme of these banks when both thrift and rural/cooperative banks cut down their borrowings and relied mainly on deposits and capital infusion of shareholders for funding. On the other hand, commercial banks reported a relatively moderate increase in borrowings of 4.1 percent.



Borrowings were primarily in the form of bills payables (99.8 percent). The balance was accounted for by time certificate of deposits under special financing programs and/or special time deposit accounts of thrift and rural/cooperative banks.

### Capital Accounts

The uptrend in capital accounts of Philippine banks was sustained but at a diminishing pace during the post-crisis period. The expansion of capital accounts further slid to 4.3 percent from 5.7 percent and from a high of 27.6 percent growth in end-June 1997.

Of the P18.4 billion new capital accounts, 71.5 percent were brought in by the 13 branches of foreign banks. Except for the P2.6 billion addition to the permanently assigned capital, fresh foreign funds were mostly in the form of increase in "net due to H.O./Other Offices" that qualified as capital under the Philippine law. On the other hand, the P8.7 billion increment in the capital stock of locally incorporated banks included some P2.9 billion new capital infused by foreign entities (both banks and non-banking institutions) in domestic banks. By end-June 2001, foreign stockholdings in locally incorporated banks (21 commercial banks and 21 thrift banks) stood at P33.9 billion. These shareholdings accounted for 16.0 percent of the total capital stock and 7.6 percent of the total capitalization of the banking industry.

All capital components remained on the uptrend, except for surplus, surplus reserves and undivided profits. Capital stock rose by 4.3 percent to P212.2 billion. This made up 47.6 percent of the total capitalization of Philippine banks as of end-June 2001 and funded 6.5 percent of total assets. Meanwhile, the expansion in assigned capital and the capital portion of "net due to H.O./branches" of foreign bank branches were much faster at 27.6 percent and 29.6 percent, respectively. Thus, the capital contribution of foreign bank branches to total resources inched up to 1.8 percent from 1.5 percent a year ago.

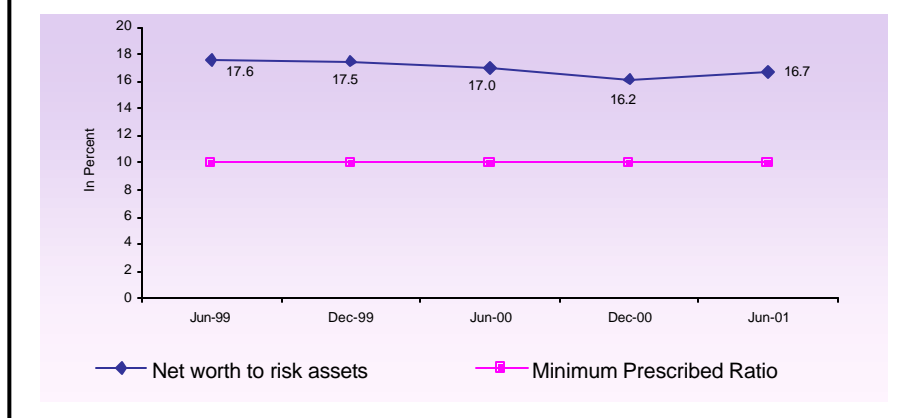


Table 7. **Prescribed Level of Minimum Capital**

<b>Type of Bank</b>		<b>Amount (P million)</b>
1	Universal Commercial Banks	4,950
2	Regular Commercial Banks	2,400
3	Thrift Banks	
	Within Metro Manila	325
	Outside Metro Manila	52
4	Rural Banks	
	Within Metro Manila	26
	Cities of Davao & Cebu	13
	1 <sup>st</sup> to 3 <sup>rd</sup> class cities and 1 <sup>st</sup> class municipalities	6.5
	4 <sup>th</sup> to 5 <sup>th</sup> class cities and 2 <sup>nd</sup> to 4 <sup>th</sup> class municipalities	3.9
	5 <sup>th</sup> to 6 <sup>th</sup> class municipalities	2.6

These developments enabled banks to generally comply with the prescribed minimum capital requirements as well as with the 10 percent statutory floor on net worth-to-risk assets ratio (NWRA). Of the 938 operating banks, 709 or 75.6 percent had capitalization equal to and/or above the minimum prescribed levels (Table 8). Likewise, majority of the operating banks (716 or 76.3 percent) have NWRAs equal to or above the prescribed ratio (Table 8). NWRA improved to 16.7 percent from 16.2 percent a year ago (Chart 8). The improved NWRA was the combined effect of the 12.9 percent increase in adjusted net worth and the 3.4 percent contraction in risks assets.

Chart 8. **Philippine Banking Industry:  
Net Worth-to-Risk Assets**







**Table 8. Status of Banks' Compliance with Capital Requirements and Net Worth-to-Risk Assets Ratio**  
(Classified by Type of Banks)

	<u>1999</u>	<u>2000</u>	<u>End-June</u>	
			<u>2000</u>	<u>2001</u>
<b>A. Number of Operating Banks</b>	<b>976</b>	<b>947</b>	<b>960</b>	<b>938</b>
Commercial Banks	52	45	47	44
Thrift Banks	118	112	115	109
Rural/Cooperative Banks	806	790	798	785
<b>B. Banks with Capital Equal to or In Excess of the Minimum Required</b>	<b>778</b>	<b>709</b>	<b>734</b>	<b>709</b>
Commercial Banks	42	35	33	32
Thrift Banks	80	73	66	80
Rural/Cooperative Banks	656	601	635	597
<b>C. Banks with 10% or More Net Worth-To-Risk Assets Ratio</b>	<b>881</b>	<b>818</b>	<b>818</b>	<b>716</b>
Commercial Banks	48	40	40	37
Thrift Banks	108	98	98	105
Rural/Cooperative Banks	725	680	680	574

### Selected Contingent Accounts

Trade-related contingent accounts continued to grow, expanding by 24.2 percent on a year-on-year basis as of end-June 2001 as import activity was sustained.

Meanwhile, derivative accounts worth P754.7 billion (Schedule 3.a) was 13.5 percent lower than its year ago level. The contraction was attributed to the reduced volume of currency forward and swap contracts. These instruments continued to account for the bulk of the derivative contracts held by commercial banks. On the other hand, financial options and futures, and interest rate derivatives had nearly doubled to P72.0 billion from a low base.

Trust Department accounts continued to decline but at a slower rate of 4.3 percent to P459.6 billion (Schedule 4.a). Trust operations mainly focused on the improvement of liquidity position as manifested by the increments in cash holdings (inclusive of foreign currency notes and coins) and investments in money market instruments. Lending growth remained muted as evidenced by the 0.4 percent contraction in loans and discounts. Partial retirement of investments in stocks and in Common Trust Funds (CTFs) was sustained to augment liquidity.



Incremental funding of trust accounts primarily came from FCDU/EFCDU trust accountabilities and Investment Management Accounts (IMA). All other trust accountabilities were reduced, inclusive of TOFA (Trust and Other Fiduciary Accounts). TOFA nonetheless remained the major source of funds despite its 14.2 percent contraction. Accordingly, TOFA share to total assets dropped to 53.2 percent from 59.3 percent a year ago (Table 10).

Table 9. **Philippine Banking System**  
**Growth Rates of Trust Assets and Accountabilities**  
(In Percent)

<u>Major Accounts</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>End-June 2001</u>
<b>Total Assets</b>	<b>20.9</b>	<b>(7.5)</b>	<b>9.2</b>	<b>(4.3)</b>
Cash and due from banks/BSP	36.1	(52.4)	(22.9)	41.5
Investments in money market	37.5	29.3	20.0	12.8
Stock investments	21.7	(19.3)	1.3	(5.7)
CTF investments	32.6	(21.4)	303.7	(42.5)
Loans and discounts	(33.6)	(9.3)	(22.5)	(0.4)
Real estate investments and real properties administered/acquired	8.5	6.7	20.0	81.0
Foreign currency notes & coins on hand -FCDU/EFCDU	(81.7)	660.4	92.2	252.83
Foreign currency assets - non-FCDU/EFCDU	12.3	40.7	26.9	29.6
Miscellaneous assets	109.7	(27.6)	31.5	(76.3)
<b>Total Accountabilities</b>	<b>20.9</b>	<b>(7.5)</b>	<b>9.2</b>	<b>(4.3)</b>
Trust and other fiduciary accts.	<u>33.2</u>	<u>(11.5)</u>	<u>12.2</u>	<u>(14.2)</u>
Personal trust	1.3	22.6	9.3	28.4
Employee benefits	26.7	7.1	14.0	12.0
Bond issues	73.8	(33.8)	(16.0)	(69.3)
Administratorship	23.8	2.0	70.9	(15.6)
Pre-need plans	28.2	21.4	29.3	15.7
Escrow	0.4	20.6	8.4	6.3
Others	60.0	(51.8)	(33.5)	(63.6)
Common trust funds	(6.8)	(18.0)	2.0	(16.1)
Investment management accts.	13.9	1.2	16.0	10.5
FCDU/EFCDU trust accountabilities	31.9	36.5	14.3	79.0
Other accountabilities	112.2	(13.4)	(53.0)	49.6



Table 10. **Philippine Banking System**  
**Distribution of Trust Assets and Accountabilities**  
(In Percent)

<u>Major Accounts</u>	<u>1999</u>	<u>2000</u>	<u>End-June</u>	
			<u>2000</u>	<u>2001</u>
<b>Total Assets</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Cash and due from banks/BSP	13.4	6.9	6.6	10.6
Investments in money market	25.9	36.2	35.6	42.0
Stock investments	13.6	11.9	12.5	12.3
CTF investments	3.5	3.0	6.1	3.7
Loans and discounts	15.8	15.5	14.1	14.6
Real estate investments and real properties administered/acquired	2.1	2.4	2.0	4.1
Foreign currency notes & coins on hand - FCDU/EFCDU	0.0	0.1	0.0	0.0
Foreign currency assets - non-FCDU/EFCDU	5.4	8.1	6.4	8.7
Miscellaneous assets	20.3	15.9	16.0	4.0
<b>Total Accountabilities</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Trust and other fiduciary accts.	<u>62.4</u>	<u>59.8</u>	<u>59.3</u>	<u>53.2</u>
Personal trust	9.0	11.9	10.4	14.0
Employee benefits	8.9	10.3	9.8	11.4
Bond issues	15.3	11.0	9.4	3.0
Administratorship	4.2	4.7	5.2	4.6
Pre-need plans	5.0	6.6	6.1	7.4
Escrow	6.3	8.2	8.0	8.8
Others	13.7	7.1	9.8	4.0
Common trust funds	15.9	14.1	19.6	17.2
Investment management accts.	12.8	14.1	13.4	15.4
FCDU/EFCDU trust accountabilities	7.1	10.4	6.8	12.7
Other accountabilities	1.8	1.6	1.0	1.5

## Results of Operations

Operations during the first half of 2001 resulted in a combined net income after tax of P7.3 billion (Schedule 5.a). This represented a 42.2 percent improvement over net earnings during the same period last year on account of better bottomline figures in commercial banks and rural/cooperative banks (Table 11). Their higher earnings more than made up for the aggregate net loss of P222 million suffered by thrift banks.



Commercial banks' after-tax earnings of P7.0 billion was 45.9 percent higher than the year ago level. On the other hand, the P504 million in aggregate net profits recorded by rural/cooperative banks was bigger by 12.0 percent than their earnings in the first half of 2000.

The extraordinary credits booked during the semester aggregated P5.5 billion, registering a 47.3 percent increase from the year ago level (Table 11). Accordingly, its share to total profits rose to 75.5 percent from 72.9 percent during the same period a year ago. Commercial banks' non-recurring income amounted to P4.5 billion, equivalent to 63.6 percent of its net earnings. Meanwhile, the P136 million extraordinary income of rural/cooperative banks accounted for 27.0 percent of its net income after tax for the semester. In the case of thrift banks, their P909 million earnings from extraordinary items softened the impact of a P972 million net operating loss on its overall profitability position.

The 14.2 percent growth in operating income was accompanied by a faster increment (14.6 percent) in operating expenses. Thus, operating efficiency slightly weakened as indicated by the decline in operating margin (net operating income to total operating income) from 5.7 percent to 5.1 percent. The expansion in operating income was attributed to the 8.2 percent increase in net interest income and to the 27.0 percent increment in non-interest income. The higher growth rate of non-interest income was principally due to the 52.3 percent expansion in trading income. Another contributory factor was the 15.3 percent increase in fee-based income.

Overhead costs and bad debt expenses/provisions for probable losses were the main cost drivers. Bad debt expenses/provisions for probable losses rose by 50.1 percent due to the further deterioration of asset quality. Overhead costs were also bigger by 8.6 percent than the year ago level. Nonetheless, its share to operating expenses (exclusive of bad debt expenses and provisions for probable losses) decreased to 69.4 percent from 69.7 percent.



Meanwhile, the 9.0 percent increment in operating expenses (exclusive of bad debts/provisions for losses) was much lower than the 14.2 percent increase in operating income. Hence, cost-to-operating income ratio improved to 78.1 percent from 81.8 percent (Chart 9).

Foreign bank branches, as a group, continued to enjoy the lowest cost-to-income ratio. In contrast, foreign bank subsidiaries had the highest average cost-to-income ratio, reflecting the fact that many of these banks were rehabilitation cases at the start. Thrift banks likewise had above industry average while the reported improvements in operating income of domestic commercial banks and rural/cooperative banks resulted in lower industry cost-to-income ratios.

These developments resulted in improvements in returns on assets and on equity. Return on assets rose to 0.4 percent from 0.1 percent a year ago while return on equity significantly improved to 3.1 percent from 1.0 percent. By bank category, rural/cooperative banks continued to have the highest returns, i.e., 1.5 percent on assets and 9.1 percent on equity (Table 12). Meanwhile, thrift banks' negative returns on asset and equity rose to 0.5 percent and 2.5 percent, respectively.

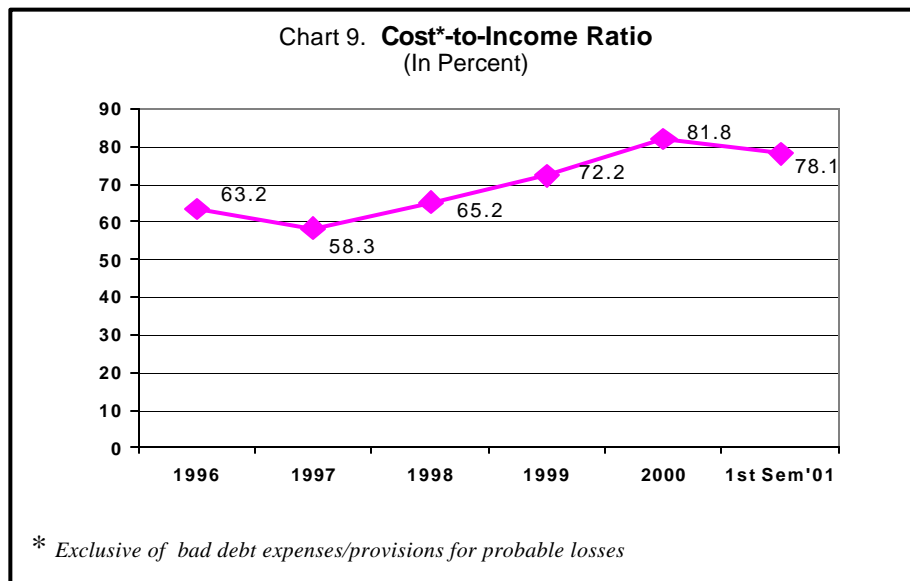




Table 11. **Philippine Banking Industry: Profitability Indicators**

Levels (P Billion)	Annual		2000		2001
	1999	2000	1 <sup>st</sup> Sem.	2 <sup>nd</sup> Sem. <sup>r/</sup>	1 <sup>st</sup> Sem. <sup>p/</sup>
Net income after tax (NIAT)	11.8	11.5	5.1	6.3	7.3
Net operating income	2.7	5.0	3.5	1.4	3.8
Net interest income	97.5	90.0	44.1	46.0	47.7
Non-interest income, of which:	48.4	43.2	20.7	22.5	26.3
Fee-based income	17.9	18.9	8.8	10.1	10.1
Trading Income	20.0	12.7	7.3	5.4	10.4
Trust department income	2.6	2.5	1.3	1.2	1.3
Operating expenses, of which:	143.1	128.3	61.2	67.0	70.2
Bad-debts/provisions	37.9	19.3	8.3	11.0	12.5
Other operating expenses, of which:	105.3	108.9	52.9	56.0	57.7
Overhead costs	73.0	74.9	36.9	38.0	40.1
Extraordinary credits/(charges)	11.5	8.6	3.7	4.9	5.5
<b>Growth Rates (vs. same period a year ago)</b>					
Net income after tax (NIAT)	(46.5)	(3.0)	(59.8)	793.8	42.2
Net operating income	(82.3)	81.7	(62.8)	121.3	7.2
Net interest income	(18.6)	(7.6)	(11.2)	(4.0)	8.2
Non-interest income, of which:	19.7	(10.7)	(12.3)	(9.2)	27.0
Fee-based income	(6.9)	5.2	0.3	9.8	15.3
Trading income	60.2	(38.0)	(37.2)	(37.2)	52.3
Trust department income	21.2	(4.3)	(6.8)	(1.6)	(1.5)
Operating expenses, of which:	(1.1)	(10.4)	(3.9)	(15.5)	14.6
Bad debts/provisions	(5.9)	(48.9)	(36.6)	(55.4)	50.1
Other operating expenses, of which:	0.8	3.5	4.5	2.5	9.0
Overhead costs	-	2.6	4.4	1.0	8.6
Extraordinary credits/(charges)	22.8	(25.3)	(28.4)	(22.7)	47.3
<b>Selected Ratios (annualized)</b>					
Earning asset yield <sup>1/</sup>	11.0	10.3	10.3	10.3	11.2
Funding cost <sup>2/</sup>	6.4	6.1	5.9	6.1	6.8
Interest spread <sup>3/</sup>	4.6	4.2	4.4	4.2	4.4
Net interest margin <sup>4/</sup>	4.5	3.9	4.3	3.9	4.1
Non-interest income to total operating Income	33.2	32.4	32.0	32.9	35.5
Cost <sup>5/</sup> -to-income ratio	72.2	81.8	81.8	81.8	78.1
Return on assets (ROA) <sup>6/</sup>	0.4	0.4	0.1	0.4	0.4
Return on equity (ROE) <sup>6/</sup>	2.9	2.6	1.0	2.6	3.1

<sup>1/</sup> Refers to ratio of interest income to average earning assets

<sup>2/</sup> Refers to ratio of interest expenses to average interest bearing liabilities

<sup>3/</sup> Refers to the difference of earning asset yield to funding cost

<sup>4/</sup> Refers to ratio of net interest income to average earning assets

<sup>5/</sup> Refers to operating expenses, exclusive of bad debts and provisions for probable losses

<sup>6/</sup> Annualized



Table 12. **Philippine Banking Industry:  
Comparative Return on Assets and Equity**  
(Classified by Type of Ownership)

	<u>1998</u>	<u>1999</u>	<u>2000</u>		<u>2001</u>
			<u>1<sup>st</sup> Sem.</u>	<u>2<sup>nd</sup> Sem.</u>	<u>1<sup>st</sup> Sem.</u>
<b>Return on Assets*</b>	<b>0.8</b>	<b>0.4</b>	<b>0.1</b>	<b>0.4</b>	<b>0.4</b>
Commercial Banks	0.8	0.4	0.1	0.4	0.5
Thrift Banks	0.1	0.4	(0.1)	(0.4)	(0.5)
Rural and Cooperative Banks	1.3	1.1	1.3	1.5	1.5
<b>Return on Equity*</b>	<b>5.9</b>	<b>2.9</b>	<b>1.0</b>	<b>2.6</b>	<b>3.1</b>
Commercial Banks	6.4	2.9	1.0	3.0	3.6
Thrift Banks	0.6	2.0	(0.7)	(2.3)	(2.5)
Rural and Cooperative Banks	8.1	6.8	8.2	8.8	9.1

\*Annualized