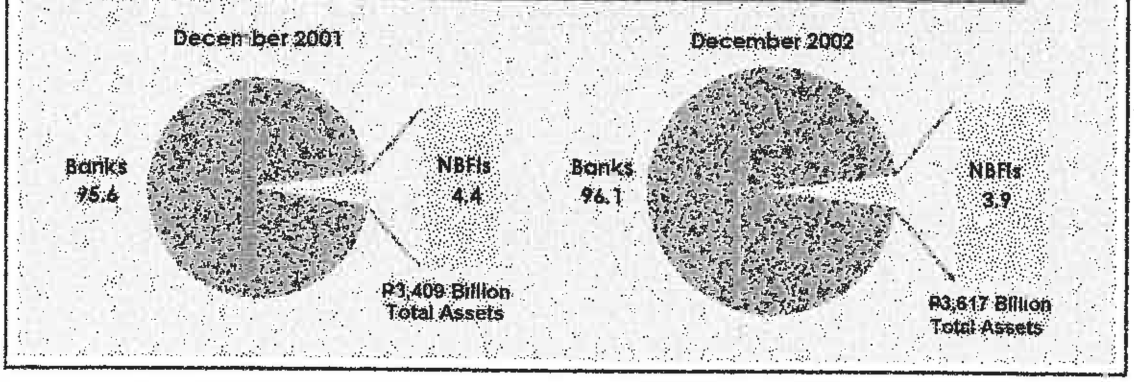
NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

Operations of the non-bank financial institutions supervised by the Bangko Sentral ng Pilipinas slowed down during the twelve-month period with the group's share in the total assets of the financial system slightly declining to 3.9 percent from 4.4 percent (Chart 47). Total assets of NBFIs declined from ₱149.3 billion as of end-year 2001 to ₱141.6 billion at end-year 2002. This can be traced to the 23.7 percent decrement in the non-banks with quasi-banking functions (NBQB's) assets. For this period, data for NBFIs under the supervision of the Securities and Exchange Commission (SEC) have been excluded, specifically investment houses (IHs) and government non-banking financial institutions (GNBFIs) without quasi-banking functions.

Chart 47. Market Share of Banks and Non-Bank Financial Institutions (NBFIs) (In Percent)



Cash/Due from Banks (P8.4 billion) and *Investments* (P33.2 billion) increased by 1.4 percent and 6.0 percent, respectively, from end-year 2001 while loans registered a negative growth. This indicated an increased preference for more liquid assets. Peso deposits, which were primarily generated by non-stock savings and loan associations (NSSLAs), continued a trend of growth at 12.8 percent, though at a much slower pace than last year's 72.0 percent (Table 50). On the other hand, *Bills Payable* plummeted to P24.1 billion from P31.7 billion last year or a negative growth of 24.0 percent. This apparently indicated the lack of financial activity which rendered the need to cut down on borrowings. Capital infusion by shareholders as well as retention of profits continued to be the primary source of funds for NBFIs which ended the year at ₱79.3 billion compared to last year's ₱72.5 billion.

Source: Supervisory Reports & Studies Office, Supervision and Examination Sector

Table 50. NBFIs : Selected Performance Indicators [1/]

Levels (P Billion)	1998	1999	2000	2001	2002
Balance Sheet					
Total Assets	120.8	142.8	140.3	149.3	141.6
Cash and due from Banks	6.0	14.1	8.5	8.3	8.4
Loans, net	74.7	71.0	75.8	84.0	76.9
Investment, net	20.9	36.3	28.6	31.3	33.2
Other Assets	19.3	21.4	27.4	25.8	23.2
Deposits	1.1	1.5	2.1	3.6	4.0
Bills Payable	29.2	32.1	30.7	31.7	24.1
Other Liabilities	20.6	35.4	27.9	28.9	25.1
Total Capital Accounts	69.9	73.7	79.7	85.1	88.5
Paid-in Capital	55.7	58.6	63.4	72.5	79.3
Surplus, Surplus Reserves & Undivided Profits	14.2	15.1	16.3	12.5	9.1
Growth Rates					
Balance Sheet					
Total Assets	(43.9 %)	18.1 %	(1.7 %)	6.4 %	(5.1 %)
Cash and due from Banks	(45.5 %)	135.1 %	(39.7 %)	(2.8 %)	1.4 %
Loans, net	(44.1 %)	(4.9 %)	6.8 %	10.7 %	(8.4 %)
Investment, net	(52.1 %)	73.5 %	(21.1 %)	9.2 %	6.0 %
Other Assets	(28.8 %)	11.0 %	27.8 %	(5.8 %)	(10.1 %)
Deposits	46.9 %	37.4 %	34.2 %	72.0 %	12.8 %
Bills Payable	(34.2 %)	9.8 %	(4.3 %)	3.2 %	(24.0 %)
Other Liabilities	(74.6 %)	72.2 %	(21.4 %)	3.8 %	(13.4 %)
Total Capital Accounts	(21.6 %)	5.4 %	8.1 %	6.8 %	4.0 %
Paid-in Capital	(11.8 %)	5.3 %	8.1 %	14.4 %	9.4 %
Surplus, Surplus Reserves & Undivided Profits	(45.3 %)	5.9 %	8.1 %	(23.0 %)	(27.2 %)
Selected Ratios					
Liquidity					
Cash and Due from Banks to Total Assets	5.0 %	9.9 %	6.1 %	5.5 %	5.9 %
Cash and Due from Banks to Total Liabilities	11.8 %	20.4 %	14.0 %	12.9 %	15.7 %
Cash and Due from Banks to Bills Payable	20.5 %	43.9 %	27.7 %	26.1 %	34.8 %
Capital Adequacy					
Total Capital Accounts to Total Assets	57.9 %	51.6 %	56.8 %	57.0 %	62.5 %
Paid-in Capital to Total Capital Accounts	79.6 %	79.5 %	79.6 %	85.3 %	89.7 %
Business Mix					
Total Investments (net) to Total Assets	17.3 %	25.4 %	20.4 %	20.9 %	23.4 %
Total Loans (net) to Total Assets	61.8 %	49.7 %	54.0 %	56.3 %	54.3 %
Total Loans (net) to Bills Payable	255.6 %	221.3 %	247.0 %	265.0 %	319.4 %

1/ Based on latest available data

Source: Supervisory Reports & Studies Office, Supervision and Examination Sector

OPERATING NETWORK

At end-December 2002, NBFI's network expanded further to 10,340 from the 9,697 entities of the previous year as more pawnshops opened during the period. As for NBFIs with authority to perform quasi-banking functions (NBQBs), no change in physical composition was registered from last year. There were still 31 NBFIs (12 head offices and 19 other offices) that comprise NBQBs (17 IHs with 7 head offices and 14 financing companies with 5 head offices)(Schedule 1).

On the other hand, non-banks without quasi-banking functions had 10,309 offices with head offices and other offices increasing by 128 entities and 515 branches, respectively, from last year.

TRUST DEPARTMENT ACCOUNTS

The downtrend of the trust and fund management operations of 12 IHs still continued, though at a slower pace of 0.2 percent in year 2002, compared with the 37.2 percent and 24.3 percent registered in year 2000 and year 2001, respectively (Table 51). From the level of ₱19.9 billion at end 1999, trust assets descended to ₱12.5 billion, ₱9.5 billion, and ₱9.4 billion at end 2000, 2001, and 2002, respectively.

Investment Management Accounts (IMA) accounted for 61.4 percent (₱5.8 billion) of total accountabilities, followed by Trust and Other Fiduciary Accounts (TOFA) at 34.4 percent (₱3.2 billion), Common Trust Funds (CTF) at 3.4 percent (₱0.3 billion) and the residual of 0.8 percent (P0.1 billion) by other accountabilities. (Table 52)

Loans and discounts remained the major trust asset component at 48.5 percent (vs. 45.0 percent at end-year 2001). Investments in money market was the second at 21.5 percent (vs. 22.6 percent at end-year 2001) followed by investments in shares of stock at 14.4 percent (vs. 13.0 percent at end-year 2001).

Table 51. Investment Houses : Growth Rates of Trust Assets and Accountabilities

Major Accounts	1998	1999	2000	2001 1/	2002
Total Assets	**(5.2 %)**	**29.5 %**	**(37.2 %)**	**(24.3 %)**	**(0.2 %)**
Cash and Due from Banks	28.7 %	31.9 %	(65.4 %)	(22.8 %)	(14.7 %)
Loans and Discounts	(9.4 %)	39.6 %	(48.7 %)	(33.3 %)	7.6 %
Investments in Money Market	(3.2 %)	13.0 %	(20.9 %)	(11.3 %)	(5.2 %)
Investments in Stocks	(14.1 %)	28.3 %	(45.4 %)	9.4 %	10.2 %
Investments in CTFs	(73.1 %)	127.9 %	11.2 %	102.8 %	(64.7 %)
Investments in Real estate & Real Prop. Admn./Acquired	115.5 %	(69.8 %)	235.3 %	(21.8 %)	(72.6 %)
Foreign Currency Notes & Coins on Hand - FCDU/EFCDU		(27.3 %)	237.5 %	(100.0 %)	
Foreign Currency Assets - Non-FCDU/EFCDU		30.0 %	(46.2 %)	300.0 %	732.1 %
Miscellaneous Assets	(15.2 %)	89.4 %	72.8 %	(46.8 %)	7.6 %
Total Accountabilities	**(5.2 %)**	**29.5 %**	**(37.2 %)**	**(24.3 %)**	**(0.2 %)**
Trust and Other Fiduciary Accounts	(12.4 %)	26.7 %	12.0 %	(8.5 %)	(3.9 %)
Administratorship	(34.6 %)	5.9 %	564.8 %	(11.7 %)	(83.3 %)
Bond Issues Under Deed of Trust or Mortgage			(91.5 %)	(100.0 %)	
Personal Trust	(7.7 %)	8.2 %	109.5 %	(24.5 %)	(28.5 %)
Employees Benefit Plans Under Trust	21.4 %	20.6 %	(34.4 %)	12.8 %	22.3 %
Escrow	(45.5 %)	(16.7 %)	(20.0 %)	4,325.0 %	(97.7 %)
Pre-need Plans	(50.5 %)	12.5 %	238.1 %	8.8 %	33.9 %
Others	(12.6 %)	44.7 %	(80.3 %)	(65.1 %)	209.4 %
Common Trust Funds	(22.8 %)	84.5 %	(96.0 %)	(22.5 %)	56.7 %
Investment Management Accounts	0.4 %	13.4 %	(12.1 %)	(30.8 %)	(0.6 %)
Other Accountabilities	302.2 %	(41.6 %)	(76.0 %)	(61.8 %)	97.4 %

1/ Revised

Source: Supervisory Reports & Studies Office, Supervision and Examination Sector

Table 52. Investment Houses : Distribution of Trust Assets and Accountabilities

Major Accounts	1998	1999	2000	2001[1/]	2002
Total Assets	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Cash and Due from Banks	6.3 %	6.4 %	3.5 %	3.6 %	3.1 %
Loans and Discounts	58.0 %	62.5 %	51.0 %	45.0 %	48.5 %
Investments in Money Market	17.6 %	15.3 %	19.3 %	22.6 %	21.5 %
Investments in Stocks	10.5 %	10.4 %	9.0 %	13.0 %	14.4 %
Investments in CTFs	0.3 %	0.5 %	0.9 %	2.3 %	0.8 %
Investments in Real estate & Real Prop. Admn./Acquired	4.7 %	1.1 %	5.9 %	6.0 %	1.7 %
Foreign Currency Notes & Coins on Hand - FCDU/EFCDU	0.1 %		0.2 %		
Foreign Currency Assets - Non-FCDU/EFCDU	0.1 %	0.1 %	0.1 %	0.3 %	2.5 %
Miscellaneous Assets	2.4 %	3.7 %	10.1 %	7.2 %	7.5 %
Total Accountabilities	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Trust and Other Fiduciary Accounts	17.0 %	16.6 %	29.6 %	35.8 %	34.4 %
Administratorship	0.3 %	0.3 %	2.9 %	3.4 %	0.6 %
Bond Issues Under Deed of Trust or Mortgage		0.2 %			
Personal Trust	4.8 %	4.0 %	13.3 %	13.2 %	9.5 %
Employees Benefit Plans Under Trust	4.0 %	3.7 %	3.9 %	5.8 %	7.1 %
Escrow				1.9 %	
Pre-need Plans	1.6 %	1.4 %	7.3 %	10.5 %	14.1 %
Others	6.3 %	7.0 %	2.2 %	1.0 %	3.1 %
Common Trust Funds	23.2 %	33.0 %	2.1 %	2.1 %	3.4 %
Investment Management Accounts	55.1 %	48.3 %	67.5 %	61.7 %	61.4 %
Other Accountabilities	4.7 %	2.1 %	0.8 %	0.4 %	0.8 %

1/ Revised

Source: Supervisory Reports & Studies Office, Supervision and Examination Sector

NON-BANKS WITH QUASI-BANKING FUNCTIONS (NBQBs)

Total assets of NBQBs as of end-year 2002 amounted to ₱29.3 billion exhibiting a contraction of 23.7 percent from last year's ₱38.4 billion (Table 53). Cash and due from banks fell by 30.7 percent while investments (gross) grew by 6.8 percent. There was a scale down in NBQB's lending activities as loans (gross) declined by 40.9 percent from end-year 2001 level. NBQB's share to the NBFI sector declined to 20.7 percent from last year's 25.8 percent.

Low investment climate substantially reduced borrowings *(Bills Payable)* by 44.4 percent or ₱6.7 billion to ₱8.4 billion from last year's ₱15.1 billion. There was no significant movement in capital accounts at ₱15.8 billion as earnings for the year were plowed back to increase stockholders' shareholdings.

MAJOR BALANCE SHEET TRENDS

NBQBs' operations resulted in a negative growth in total assets of 23.7 percent or ₱29.3 billion from a year ago's ₱38.4 billion. Similarly, *Cash and Due from Banks* of NBQBs fell from the previous year by 30.7 percent, slightly better than last year's 31.9 percent drop. In contrast, investments grew by 6.8 percent with a P0.7 billion level increase. Loans contracted this period by 40.9 percent, a complete reversal from last year's 40.1 percent growth.

Meanwhile, *Bills Payable* exhibited a significant 44.4 percent decline for the first time after four years. This development pushed up liquid assets to bills payable ratio to 11.4 percent, 2.2 percentage points more than end-year 2001's ratio.

To shore up finances, whatever income realized during the year was used to beef up capital stock. Thus, paid-in capital to total capital accounts rose to 56.3 percent from 54.8 percent last year.

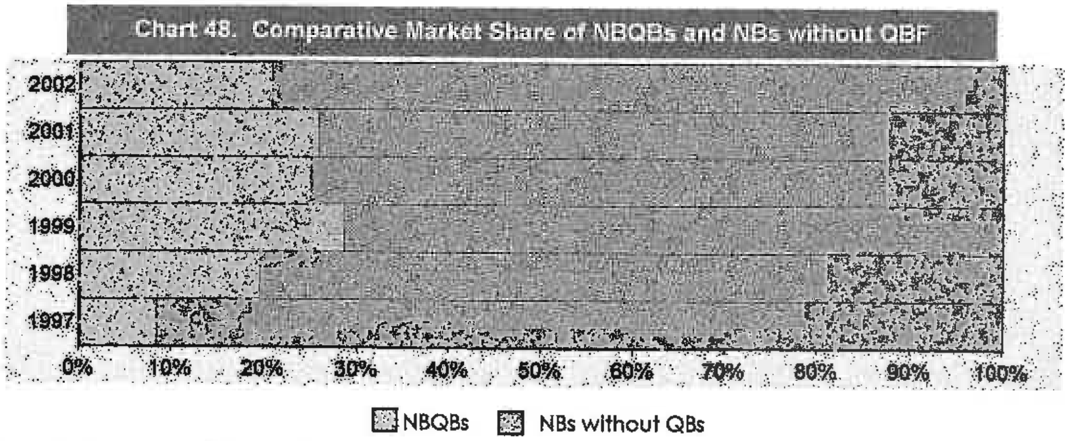
Table 53. NBQBs : Selected Performance Indicators [1/]

Growth Rates	1998	1999	2000	2001	2002
Balance Sheet					
Total Assets	31.3 %	73.8 %	(14.5 %)	10.1 %	(23.7 %)
Cash and due from Banks	(28.5 %)	595.5 %	(72.9 %)	(31.9 %)	(30.7 %)
Loans, gross	38.6 %	(21.0 %)	11.8 %	40.1 %	(40.9 %)
Allowance for Probable Losses	106.5 %	(60.2 %)	35.8 %	59.6 %	(26.1 %)
Loans, net	33.6 %	(16.5 %)	10.5 %	38.7 %	(42.1 %)
Investment, gross	22.7 %	144.8 %	(49.1 %)	16.2 %	6.8 %
Allowance for Probable Losses	4,742.0 %	(87.7 %)	103.2 %	13.4 %	103.6 %
Investment, net	15.6 %	159.5 %	(49.6 %)	16.3 %	5.7 %
Other Assets	114.5 %	71.8 %	95.5 %	(11.2 %)	(22.7 %)
Bills Payable	7.4 %	91.6 %	1.3 %	11.4 %	(44.4 %)
Other Liabilities	175.7 %	205.2 %	(58.6 %)	36.3 %	(31.6 %)
Total Capital Accounts	23.9 %	16.7 %	11.7 %	(0.1 %)	(0.3 %)
Paid-in Capital	83.5 %	19.9 %	(23.1 %)	70.3 %	2.6 %
Surplus, Surplus Reserves & Undivided Profits	(2.5 %)	14.1 %	42.2 %	(33.5 %)	(3.7 %)
Income Statement					
Net Income After Tax (NIAT)	(42.8 %)	103.9 %	(3.5 %)	29.4 %	(22.6 %)
Net Operating Income	(33.1 %)	(124.4 %)	71.1 %	299.9 %	(49.7 %)
Total Operating Income	13.3 %	15.3 %	37.3 %	(18.7 %)	(37.9 %)
Net Interest Income	(336.7 %)	(1,620.0 %)	121.3 %	(37.3 %)	(32.9 %)
Non-interest Income	17.0 %	(19.8 %)	3.2 %	(2.4 %)	(40.7 %)
Operating Expenses	46.9 %	(20.7 %)	138.5 %	(54.7 %)	(26.2 %)
Bad Debts/Provisions for Probable Losses	402.2 %	(13.8 %)	91.2 %	(81.9 %)	(52.5 %)
Other Operating Expenses	19.1 %	(23.0 %)	156.0 %	(47.2 %)	(23.7 %)
Extraordinary Credits/(Charges)	(44.5 %)	(3.5 %)	817.4 %	(63.0 %)	78.3 %
Selected Ratios					
Liquidity					
Cash and Due from Banks to Bills Payable	15.4 %	56.0 %	15.0 %	9.2 %	11.4 %
Loans, gross to Bills Payable	193.8 %	79.9 %	88.2 %	110.8 %	117.9 %
Capital Adequacy					
Total Capital Accounts to Total Assets	51.9 %	34.8 %	45.5 %	41.3 %	54.0 %
Paid-in Capital to Total Capital Accounts	45.4 %	46.7 %	32.1 %	54.8 %	56.3 %
Business Mix					
Total Investments (gross) to Total Assets	28.6 %	40.3 %	24.0 %	25.3 %	35.4 %
Total Loans (gross) to Total Assets	57.4 %	26.1 %	34.1 %	43.4 %	33.6 %
Profitability					
Return on Assets (ROA)	2.9 %	3.8 %	3.1 %	4.1 %	3.5 %
Return on Equity (ROE)	5.4 %	9.2 %	7.8 %	9.5 %	7.4 %

1/ Based on latest available data

Source: Supervisory Reports & Studies Office, Supervision and Examination Sector

These activities brought down to 20.7 percent (₱29.3 billion) the NBQB's share to the NBFI sector (₱149.3 billion) from 25.8 percent the previous year (Chart 48).



IHs accounted for ₱23.1 billion or 78.9 percent of total NBQB resources, while the balance of ₱6.2 billion or 21.1 percent was held by financing companies.

CAPITALIZATION

Capital accounts of NBQBs stood at ₱15.8 billion, slightly lower by 0.3 percent from the previous year. This resulted from the decline in surplus, surplus reserves and undivided profits by 3.7 percent or ₱264 million partly offset by the increase in capital stock by 2.6 percent or ₱222 million.

Total capital accounts to total assets strengthened to 54.0 percent from 41.3 percent last year basically due to decline in total assets.

RESULTS OF OPERATIONS

NIAT of NBQBs was lower by 22.6 percent, a reversal from last year's growth of 29.4 percent. The reduction in net profits to ₱1.2 billion stemmed from the contraction of net operating income by 49.7 percent or ₱0.8 billion from ₱1.6 billion a year ago (Table 54).

Simultaneous reductions in both net interest income and non-interest income contributed to total operating income's decrement for the year of 37.9 percent. Non-interest income went down by 40.7 percent to 1.2 billion due to simultaneous reductions in fee-based and other income. This accounted for 61.2 percent of total operating income. On the other hand, operating expenses was reduced by 26.2 percent to ₱1.2 billion.

Table 54. NBQBs : Profitability Indicators

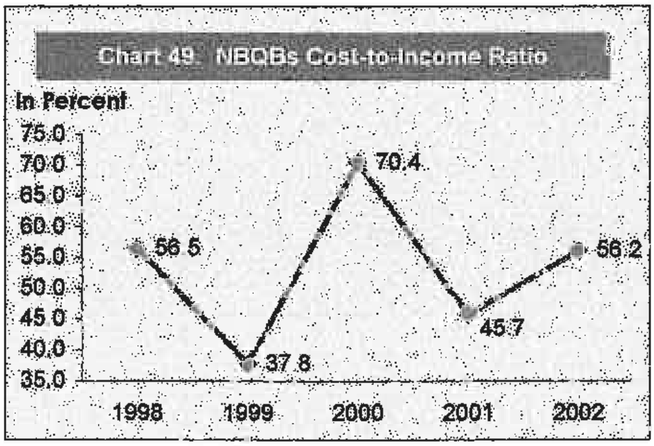
Levels (P Billion)	1998	1999	2000	2001	2002
Net Income After Tax (NIAT)	0.6	1.2	1.2	1.5	1.2
Net Operating Income	0.6	1.4	0.4	1.6	0.8
Total Operating Income	2.4	2.8	3.9	3.1	1.9
Net Interest Income	(0.1)	0.8	1.8	1.1	0.8
Interest Income	1.3	1.5	3.4	2.5	1.6
Interest Expenses	1.3	0.7	1.6	1.4	0.8
Non-interest Income	2.5	2.0	2.1	2.0	1.2
Fee-based income	0.4	0.4	0.8	0.7	0.7
Trading Income	0.6	1.0	0.5	0.1	0.2
Other income	1.5	0.6	0.7	1.2	0.4
Operating Expenses	1.8	1.5	3.5	1.6	1.2
Bad Debts/Provisions for Probable Losses	0.5	0.4	0.7	0.1	0.1
Other Operating Expenses	1.4	1.1	2.7	1.4	1.1
Extraordinary Credits/(Charges)	0.1	0.1	1.1	0.4	0.7
Growth Rates					
Net Income After Tax (NIAT)	(42.8 %)	103.9 %	(3.5 %)	29.4 %	(22.6 %)
Net Operating Income	(33.1 %)	124.4 %	(71.1 %)	299.9 %	(49.7 %)
Total Operating Income	13.3 %	15.3 %	37.3 %	(18.7 %)	(37.9 %)
Net Interest Income	(336.7 %)	(1,620.0 %)	121.3 %	(37.3 %)	(32.9 %)
Interest Income	22.6 %	21.6 %	122.8 %	(26.1 %)	(38.4 %)
Interest Expenses	30.6 %	(44.9 %)	124.5 %	(13.7 %)	(42.8 %)
Non-interest Income	17.0 %	(19.8 %)	3.2 %	(2.4 %)	(40.7 %)
Fee-based income	38.0 %	13.6 %	88.0 %	(13.1 %)	(9.7 %)
Trading Income	(49.5 %)	50.1 %	(46.9 %)	(79.2 %)	43.7 %
Other income	150.4 %	(59.1 %)	20.2 %	64.2 %	(67.3 %)
Operating Expenses	46.9 %	(20.7 %)	138.5 %	(54.7 %)	(26.2 %)
Bad Debts/Provisions for Probable Losses	402.2 %	(13.8 %)	91.2 %	(81.9 %)	(52.5 %)
Other Operating Expenses	19.1 %	(23.0 %)	156.0 %	(47.2 %)	(23.7 %)
Extraordinary Credits/(Charges)	(44.5 %)	(3.5 %)	817.4 %	(63.0 %)	78.3 %
Selected Ratios					
Earning Asset Yield	9.8 %	8.3 %	18.6 %	13.5 %	8.2 %
Funding Cost	19.6 %	7.1 %	12.1 %	9.8 %	6.9 %
Interest Spread	(9.8 %)	1.1 %	6.4 %	3.7 %	1.4 %
Net Interest Margin	(0.4 %)	4.4 %	9.7 %	6.0 %	4.0 %
Non-interest Income to Total Operating Income	102.2 %	71.1 %	53.4 %	64.1 %	61.2 %
Cost-to-Income Ratio	56.5 %	37.8 %	70.4 %	45.7 %	56.2 %
Return on Assets (ROA)	2.9 %	3.8 %	3.1 %	4.1 %	3.5 %
Return on Equity (ROE)	5.4 %	9.2 %	7.8 %	9.5 %	7.4 %

Definition of ratios:

***Earning Asset Yield** refers to the ratio of interest income to average earning assets*
***Funding Cost** refers to the ratio of interest expenses to average interest-bearing liabilities*
***Interest Spread** refers to the difference between earning asset yield and funding cost*
***Net Interest Margin** refers to the ratio of net interest income to average earning assets*
***Cost-to-Income Ratio** refers to operating expenses, exclusive of bad debts and provisions to total operating income*

Source: Supervisory Reports & Studies Office, Supervision and Examination Sector

Earning asset yield ratio fell from 13.5 percent last year to 8.2 percent as interest spread as well as net interest margin dropped to 1.4 percent from 3.7 percent and to 4.0 percent from 6.0 percent, respectively, while cost-to-income ratio deteriorated to 56.2 percent from 45.7 percent (Chart 49). Both return on assets (ROA) and return on equity (ROE) ratios regressed to 3.5 percent from 4.1 percent and to 7.4 percent from 9.5 percent, respectively.



NON-BANKS (NBS) WITHOUT QUASI-BANKING FUNCTIONS (QBS)

NBs without QBs continued to participate actively in the activities of the financial system. Assets grew consistently for the past five years with increments of 1.3 percent for the year and 5.1 percent last year (Table 55). This improved the share of NBs without QBs to 79.3 percent of total resources of the NBFIs, higher than the 74.2 percent reported a year ago.

Caution in lending was evident as loan portfolio (net) went down by 0.8 percent from ₱68.5 billion last year to ₱67.9 billion. In spite of the decline, loans still comprised 60.5 percent of total assets. Funds were kept in liquid assets as *Cash and Due from Banks* as well as *Investments* rose to ₱7.4 billion and ₱13.9 billion from last year's ₱6.9 billion and ₱13.8 billion, respectively.

With limited source from the public, funds were primarily provided by shareholders as paid-in capital rose by 10.3 percent from ₱63.8 billion to ₱70.4 billion. The other sources of funds came from deposit liabilities of NSSLAs, which grew by 12.8 percent from ₱3.6 billion to ₱4.0 billion during the same period.

Table 55. NB without QBs : Selected Performance Indicators [1/]

Levels (P Billion)	1998	1999	2000	2001	2002
Balance Sheet					
Total Assets	97.3	101.9	105.4	110.8	112.3
Cash and due from Banks	4.9	6.6	6.5	6.9	7.4
Loans, net	62.6	60.9	64.7	68.5	67.9
Investment, net	14.6	19.9	20.4	21.6	23.0
Other Assets	15.3	14.5	13.9	13.8	13.9
Deposits	1.1	1.5	2.1	3.6	4.0
Bills Payable	22.2	18.7	17.2	16.6	15.7
Other Liabilities	16.2	22.1	22.4	21.4	19.9
Total Capital Accounts	57.7	59.5	63.8	69.2	72.6
Paid-in Capital	50.2	52.0	58.3	63.8	70.4
Surplus, Surplus Reserves & Undivided Profits	7.6	7.5	5.5	5.4	2.2
Growth Rates					
Balance Sheet					
Total Assets	(50.7 %)	4.7 %	3.4 %	5.1 %	1.3 %
Cash and due from Banks	(48.2 %)	34.6 %	(2.3 %)	6.3 %	7.8 %
Loans, net	(49.8 %)	(2.7 %)	6.2 %	5.9 %	(0.8 %)
Investment, net	(61.8 %)	36.2 %	2.5 %	6.4 %	6.2 %
Other Assets	(39.4 %)	(4.9 %)	(4.3 %)	(0.6 %)	0.8 %
Deposits	46.9 %	37.4 %	34.2 %	72.0 %	12.8 %
Bills Payable	(41.3 %)	(15.8 %)	(8.3 %)	(3.2 %)	(5.6 %)
Other Liabilities	(79.6 %)	36.5 %	1.0 %	(4.1 %)	(7.0 %)
Total Capital Accounts	(27.2 %)	3.0 %	7.3 %	8.5 %	4.9 %
Paid-in Capital	(16.6 %)	3.6 %	12.1 %	9.5 %	10.3 %
Surplus, Surplus Reserves & Undivided Profits	(60.5 %)	(1.3 %)	(26.5 %)	(2.5 %)	(58.6 %)
Selected Ratios					
Liquidity					
Cash and Due from Banks to Total Assets	5.1 %	6.5 %	6.1 %	6.2 %	6.6 %
Cash and Due from Banks to Total Liabilities	12.4 %	15.6 %	15.5 %	16.5 %	18.7 %
Cash and Due from Banks to Bills Payable	22.1 %	35.3 %	37.6 %	41.3 %	47.2 %
Capital Adequacy					
Total Capital Accounts to Total Assets	59.3 %	58.4 %	60.5 %	62.4 %	64.7 %
Paid-in Capital to Total Capital Accounts	86.9 %	87.4 %	91.4 %	92.2 %	96.9 %
Business Mix					
Total Investments (net) to Total Assets	15.0 %	19.5 %	19.3 %	19.5 %	20.5 %
Total Loans (net) to Total Assets	64.3 %	59.8 %	61.4 %	61.8 %	60.5 %
Total Loans (net) to Bills Payable	281.2 %	324.9 %	376.4 %	411.7 %	432.4 %

1/ Based on latest available data

Source: Supervisory Reports & Studies Office, Supervision and Examination Sector

OPERATING NETWORK

The 10,309 offices (5,369 head offices and 4,940 branches) of NBs without QBs comprised 99.7 percent of the physical structure of NBFIs. The establishment of new head offices (164) and branches (515) by pawnshops in addition to 4 new venture capital corporations and 1 credit card company was the main cause of the increase in physical composition despite the closure of 7 investment houses (plus 1 branch), 15 financing companies, 1 investment company, 8 securities dealers/brokers, 3 lending investors, and the transfer of 6 BLAs to the Home Guaranty Corporation (HGC) effective 7 February 2002 pursuant to Section 94 of R.A. No. 8791 (The General Banking Law of 2000).

MAJOR BALANCE SHEET TRENDS

Total assets amounted to ₱112.3 billion equivalent to 79.3 percent of NBFIs' total resources. NSSLAs and IHs are considered the major players for the year, with assets amounting to ₱54.7 billion (48.5 percent) and ₱25.8 billion, (23.0 percent), respectively.

The period was marked with both increments and decrements for asset accounts of NBs without QBs. *Cash and Due from Banks* (7.8 percent), *Investments* (6.2 percent), and other assets (0.8 percent) registered increments for the year. Loans, on the other hand, went down by 0.8 percent. NBs without QBs were more liquid than the previous and the other year as the ratio of cash and due from banks to total assets rose to 6.6 percent from 6.2 percent and 6.1 percent, respectively. Portfolio mix was in favor of investments this year (20.5 percent of total assets vs. 19.5 percent a year ago) while the reduction in loans by 0.8 percent brought down loans (net) to total assets to 60.5 percent from 61.8 percent a year ago.

All liability accounts posted decrements for the year with the exception of deposits. Deposits (accounted for solely by NSSLAs) expanded by 12.8 percent from last year. On the other hand, *Bills Payable* contracted to 5.6 percent, pushing cash and due from banks to bills payable ratio to 47.2 percent from last year's 41.3 percent. Likewise, other liabilities contracted by 7.0 percent.

An improved capital base was noted at end-December 2002. Paid-in capital expanded by 10.3 on a year-on-year basis. This brought up the ratio of capital to total assets to 64.7 percent from 62.4 percent a year ago.

The highest capital contribution was registered by NSSLAs, accounting for 65.6 percent (or 47.6 billion) of the ₱72.6 billion total capital accounts of NBs without QBs.

OFFSHORE BANKING SYSTEM

The performance and condition of the offshore banking system continued to exhibit a downtrend. As of end-year 2002, all asset and income components declined. Cut-down in overhead cost and related other operating expenses trimmed net loss by 66.7 percent from US$3.0 million a year ago to US$1.0 million.

As of end-year 2002, the offshore banking system of the Philippines consisted of 11 offshore banking units (OBUs) of top-ranked international banks from Europe (6), America (4), and Asia (1).

With limited authority to accept funds from residents of the Philippines, funding came mostly from *Due to Head Office/Branches* at US$320.4 million or 55.3 percent of *Total Liabilities* at end-year 2002. This was 40.0 percent or US$213.6 million lower than the previous year's US$534.0 million. Other major sources of funds came from *Due to Other Banks* at US$210.6 million or 36.4 percent of *Total Liabilities* at end-year 2002. This was 16.0 percent or US$29.2 million higher than the previous year's US$182.4 million.

Major users of funds were resident borrowers (US$284.9 million), investments in debt securities (US$148.4 million) and due from local banks including the Bangko Sentral ng Pilipinas (US$147.8 million), which comprised 49.3 percent, 25.7 percent and 25.6 percent, respectively, of *Total Assets.*

Total Assets of the offshore banking system shrank further by US$183.6 million (24.1 percent) to US$577.8 million from US$761.4 million a year ago. All asset components declined. *Investment in Bonds and Other Securities* dipped by 29.8 percent (US$63.0 million), and *Loans and Discounts* further decreased by 25.1 percent (US$111.4 million). *Due from Other Banks* and *Other Assets* receded by 9.4 percent and 9.2 percent, respectively. (Table 56)

Table 56. OBUs - Selected Performance Indicators

	2000	2001	2002
Growth Rates			
Balance Sheet			
Total assets (net)	(14.7)	(32.3)	(24.1)
Allowance for probable losses	(61.4)	182.4	(10.2)
Total assets (gross)	(17.6)	(26.0)	(22.6)
Due from other banks	(15.4)	(50.0)	(9.4)
Loans (gross)	(35.4)	(19.9)	(25.1)
Investment in bonds and other securities	123.5	16.6	(29.8)
Other assets	55.0	(64.5)	(9.2)
Deposits of non-residents other than banks	12.5	5.6	(22.1)
Net Due to Head Office/Other Branch	(25.9)	(30.8)	(40.0)
Due to Other Banks	28.2	(29.3)	16.0
Other Liabilities	34.1	(88.1)	122.8
Income Statement			
Net income/loss after tax (NIAT)	88.9 *	(19.2)	66.7*
Net operating income/loss	88.9 *	(19.2)	66.7*
Operating income	37.5	(47.7)	(30.4)
Net interest income	36.8	(7.7)	(29.2)
Non-interest income	38.5	(105.6)	0.0
Operating expenses, of which:	(20.3)	(56.3)	(38.5)
Provisions for probable losses	(44.1)	(57.9)	(62.5)
Selected Ratios			
Cost-to-income ratio 1/	63.5	80.1	81.3
Return on assets (ROA) 2/	(0.2)	(0.3)	(0.1)

* *Reduction of losses*

1/ *Exclusive of bad debts expenses and provision for losses*

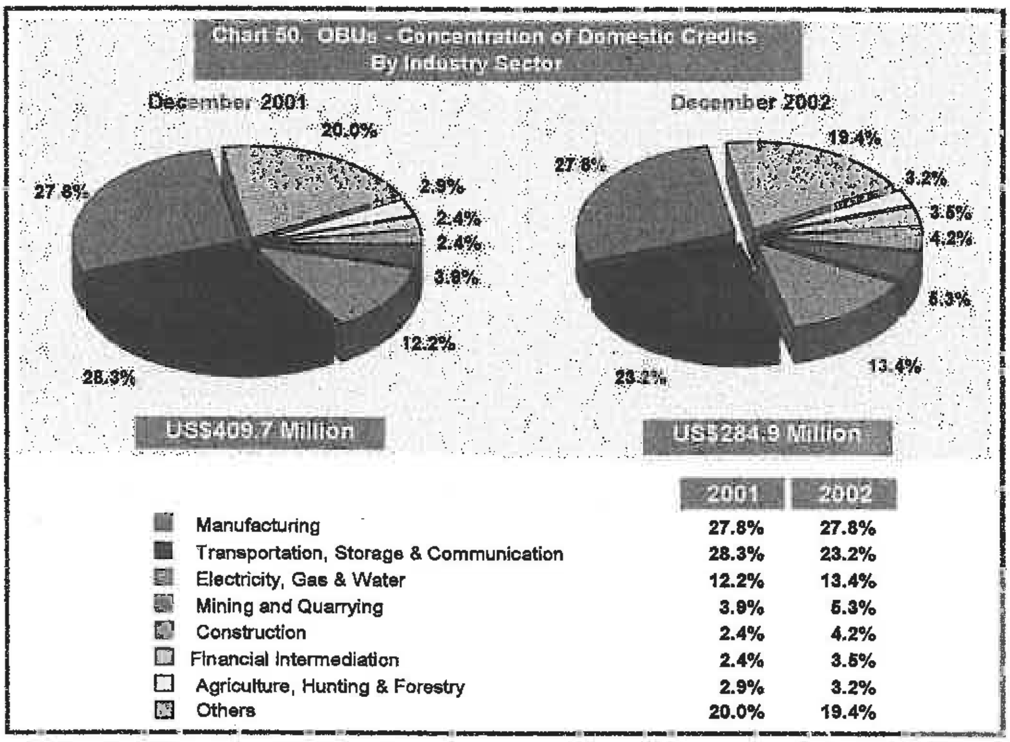
2/ *Annualized*

Source: Supervisory Reports & Studies Office, Supervision and Examination Sector

Domestic entities remained the main beneficiaries of the lending activities of OBUs as their combined loans of US$284.9 million comprised 85.8 percent of the total *Loans and Discounts* (gross).

The main beneficiaries of lending activities continued to be the manufacturing sector, transportation and communication, and electricity, gas and water. Transportation and communication decreased its share by 5.1 percentage points from 28.3 percent a year ago to settle for second place at 23.2 percent (US$66.0 million). Manufacturing maintained its share at 27.8 percent (US$79.0 million) and now led all other beneficiaries. Electricity, gas and water increased its percentage share slightly from 12.2 percent to 13.4 percent (US$38.0 million) and retained the third position. The construction industry with 4.2 percent overtook agriculture, hunting and fishery with 3.2 percent for fifth place. The rest of the industries maintained their previous rankings. (Chart 50)

As to maturity, most of the loans were medium-term at 46.0 percent, followed by short-term and long-term loans at 31.3 percent and 22.7 percent, respectively.



RESULTS OF OPERATIONS

Operating income declined by 30.4 percent (US$7.0 million) to US$16.0 million from US$23.0 million a year ago. This was brought about by the decline in net interest income by 29.2 percent (US$7.0 million) from last year's US$24.0 million and a negative non-interest income of US$1.0 million. Despite the drop in operating income, net operating loss of US$3.0 million in year 2001 was reduced to US$1.0 million in year 2002 due to the considerable reduction in overhead cost and related other operating expenses. Operating expenses were slashed by 38.5 percent from US$26.0 million to US$16.0 million. Both provisions for probable losses and other operating expenses dropped substantially from last year by 62.5 percent and 27.8 percent, respectively. OBUs were less efficient this year than in the past five years. Cost-to-income ratio for the years 1997 to 2001 showed a high of 81.1 percent and a low of 63.5 percent. For the year 2002, cost-to-income ratio rose to 81.3 percent. (Chart 51)

Chart 51. OBUs: Cost-to-Income Ratio