NON-BANKS WITH QUASI-BANKING FUNCTIONS (NBQBs)

OVERVIEW

Total assets of NBQBs as of end-June 2003 amounted to ₱33.1 billion exhibiting a contraction of 6.5 percent from last year's ₱35.4 billion. Investment houses (IH) with QB license accounted for ₱26.7 billion or 80.5 percent of total NBQB assets, while the balance of ₱6.4 billion or 19.5 percent was held by financing companies (FCs) with QB license.

NBQBs remained well-capitalized with capital to assets ratio at 51.8 percent against a backdrop of reduced borrowings and increased capital mobilization.

NBQBs also remained profitable with a ₱1.4 billion net income after tax (NIAT) for the first half of 2003, up by ₱0.9 billion from ₱0.5 billion over the same period a year ago. The significant increase primarily came from other extraordinary credits of ₱0.8 billion although net operating income also improved by 4.4 percent.

Taken together, the key performance indicators support a well-managed and healthy NBQB system. The key concern appears to be the insufficiency of business opportunities.

OPERATING NETWORK

During the semester, the number of operating NBQBs decreased to thirty (30) with the closure of one IH (East Asia Capital Corporation effective 16 June 2003). This brought the network of IHs with QB to six (6) head offices and ten (10) branches while financing companies still had five (5) head offices and nine (9) branches as of end-June 2003. (Schedule 1)

MAJOR BALANCE SHEET TRENDS

ASSETS. The industry's ratio of liquid assets to bills payable rose to 139.3 percent from 98.2 percent a year ago. The increase of 41.1 percentage points in the liquid assets ratio was driven by the substantial ₱4.2 billion or 37.1 percent decline of bills payable, which outmatched the ₱1.3 billion or 11.4 percent drop in liquid assets. NBQBs reduced their investments, net to ₱11.8 billion from ₱13.0 billion a year ago together with ROPOA, net to ₱1.5 billion from ₱2.9 billion. The proceeds of the preceeding transactions were lent out to the interbank and customer markets. IBL and loans, gross (excluding IBL) grew to ₱3.0 billion and ₱10.3 billion from year ago's ₱1.0 billion and ₱8.1 billion, respectively. (Tables 57 and 58)

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

Table 57. NBQBs : Financial Highlights

Levels in P Billion				End-June	
	2000	2001 1/	2002	2002	2003
Balance Sheet					
Total Assets	34.9	38.3	29.3	35.4	33.1
Cash and Due from Banks	2.0	1.4	1.0	2.3	3.0
Interbank Loans Receivable (IBL)	0.7	2.3	1.5	1.0	3.0
Loans, gross (exclusive of IBL)	11.2	14.4	8.3	8.1	10.3
Allowance for Probable Losses	0.8	1.2	0.9	0.9	1.0
Loans, net (exclusive of IBL)	10.4	13.2	7.4	7.3	9.3
Investment, net	8.3	9.6	10.2	13.0	11.8
ROPOA (net)	2.6	2.9	1.8	2.9	1.5
Other Assets	10.8	9.0	7.4	9.0	4.6
Total Liabilities	19.0	22.5	13.4	19.8	16.0
Bills Payable	13.5	15.1	8.3	11.5	7.3
Other Liabilities	5.5	7.4	5.2	8.2	8.7
Total Capital Accounts	15.9	15.9	15.9	15.6	17.2
Income Statement					
Total Operating Income	3.9	3.1	2.4	1.4	1.3
Net Interest Income	1.8	1.1	0.8	0.4	0.2
Non-interest Income	2.1	2.0	1.7	1.0	1.1
Operating Expenses	3.5	1.6	1.2	0.7	0.6
Bad Debts/Provisions for Probable Losses	0.7	0.1	0.1	0.0	0.1
Other Operating Expenses	2.7	1.4	1.1	0.7	0.5
Net Operating Income	0.4	1.5	1.3	0.6	0.7
Extraordinary Credits/(Charges)	1.1	0.4	0.2	0.0	0.8
Net Income After Tax (NIAT)	1.2	1.5	1.2	0.5	1.4

1/ Revised

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

Table 58 NBQBs : Selected Performance Indicators

[illegible]	2000	2001	2002	End-June 2002	End-June 2003
Balance Sheet					
Total Assets	(14.5 %)	9.9 %	(23.5 %)	(7.2 %)	(6.5 %)
Cash and due from Banks	(72.9 %)	(31.9 %)	(30.5 %)	86.4 %	31.6 %
Interbank Loans Receivable (IBL)	29.6 %	218.4 %	(32.8 %)	51.2 %	191.1 %
Loans, gross (exclusive of IBL)	10.8 %	28.5 %	(42.2 %)	(38.0 %)	26.9 %
Allowance for Probable Losses	35.8 %	59.6 %	(25.8 %)	(31.4 %)	19.1 %
Loans, net (exclusive of IBL)	9.4 %	26.3 %	(43.7 %)	(38.7 %)	27.9 %
Investment, net	(49.6 %)	16.3 %	5.7 %	22.0 %	(9.4 %)
ROPOA, net	402.4 %	9.4 %	(39.0 %)	(0.5 %)	(48.8 %)
Other Assets	70.9 %	(16.9 %)	(16.9 %)	(17.4 %)	(48.6 %)
Total Liabilities	(28.6 %)	18.3 %	(40.2 %)	(6.6 %)	(19.3 %)
Bills Payable	1.3 %	11.4 %	(45.1 %)	(23.7 %)	(37.1 %)
Other Liabilities	(58.7 %)	35.3 %	(30.2 %)	36.1 %	5.6 %
Total Capital Accounts	11.7 %	(0.1 %)	(0.0 %)	(8.0 %)	9.7 %
Income Statement					
Total Operating Income	37.3 %	(19.6 %)	(21.8 %)	19.6 %	(6.6 %)
Net Interest Income	121.3 %	(37.3 %)	(32.9 %)	(28.2 %)	(42.4 %)
Non-interest Income	3.2 %	(4.1 %)	(15.6 %)	55.7 %	5.8 %
Operating Expenses	138.5 %	(54.7 %)	(25.9 %)	(3.4 %)	(15.9 %)
Bad Debts/Provisions for Probable Losses	91.2 %	(81.9 %)	(52.4 %)	(63.3 %)	206.7 %
Other Operating Expenses	156.0 %	(47.2 %)	(23.4 %)	8.0 %	(30.3 %)
Net Operating Income	71.1 %	291.0 %	(17.6 %)	66.6 %	4.4 %
Extraordinary Credits/(Charges)	817.4 %	(59.7 %)	(49.8 %)	(88.2 %)	1,975.1 %
Net Income After Tax (NIAT)	(3.5 %)	29.4 %	(23.1 %)	(3.7 %)	171.2 %
[illegible]					
Liquidity					
Cash and Due from Banks to Bills Payable	15.0 %	9.2 %	11.6 %	19.6 %	40.9 %
Liquid Assets to Bills Payable[2/]	36.9 %	46.7 %	79.5 %	98.2 %	139.3 %
Loans, gross to Bills Payable	88.2 %	110.8 %	119.4 %	79.5 %	183.6 %
Asset Quality					
Non-performing Loans (NPL) Ratio	8.7 %	9.8 %	10.5 %	12.9 %	8.1 %
NPL Coverage Ratio	72.2 %	72.9 %	86.0 %	74.1 %	97.2 %
Non-performing Assets (NPA) to Gross Assets	10.9 %	12.2 %	14.3 %	11.7 %	8.6 %
NPA Coverage Ratio	24.6 %	31.3 %	58.2 %	30.8 %	50.8 %
Capital Adequacy					
Total Capital Accounts to Total Assets	45.6 %	41.4 %	54.2 %	44.2 %	51.8 %
Paid-in Capital to Total Capital Accounts	51.4 %	54.8 %	56.3 %	55.0 %	52.1 %
Business Mix					
Total Investments (gross) to Total Assets	24.0 %	25.4 %	35.5 %	37.2 %	36.5 %
Total Loans (gross) to Total Assets	34.2 %	43.5 %	33.7 %	25.9 %	40.2 %
Profitability[3/]					
Return on Assets (ROA)	3.1 %	4.1 %	3.4 %	4.1 %	6.1 %
Return on Equity (ROE)	7.8 %	9.5 %	7.3 %	9.4 %	12.2 %

1/ Revised

2/ Liquid Assets refers to Cash and Due from Banks plus Investments,net (less equity investments,net)

3/ Annualized; first semester ratios based on second half of previous year plus first half of the current year

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

The bulk of NBQBs' total assets were still in investments (net) which stood at ₱11.8 billion, despite a 1.2 percentage point cut in asset share to 35.6 percent from a year ago's 36.8 percent. As shown in Table 59, loans (net, exclusive of IBL), which followed at 28.0 percent, increased from 20.5 percent as of end-June 2002. Whereas, *Other Assets* and ROPOA (net) settled at 13.9 percent and 4.5 percent from a year ago's 25.3 percent and 8.1 percent, respectively. IBL, on the other hand, increased its share from 2.9 percent a year ago to 9.0 percent. Likewise, cash and due from banks increased by 2.6 percentage points to 9.0 percent from 6.4 percent a year ago.

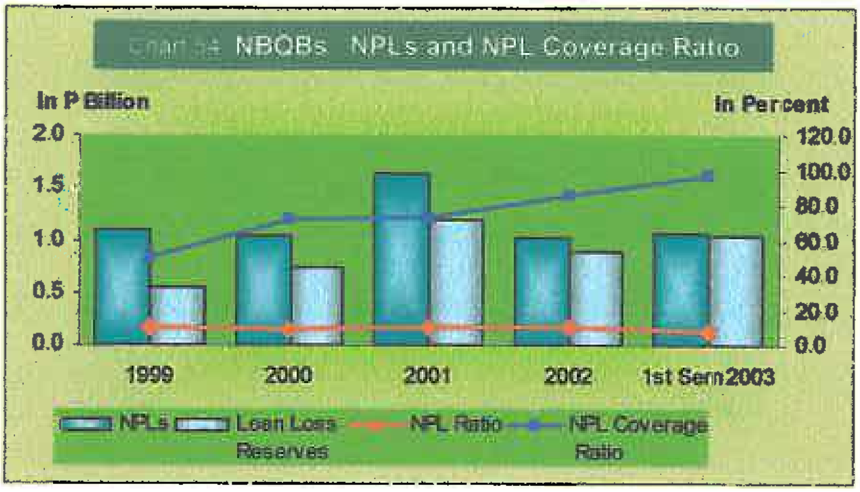
Table 59. NBQBs - Balance Sheet Structure

Major Accounts	End-December			End-June	
	2000	2001	2002	2002	2003
Total Assets	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cash and Due from Banks	5.8 %	3.6 %	3.3 %	6.4 %	9.0 %
Loans, net	29.9 %	34.4 %	25.3 %	20.5 %	28.0 %
Interbank Loans Receivable (IBL)	2.1 %	6.0 %	5.3 %	2.9 %	9.0 %
Investments, net	23.7 %	25.1 %	34.7 %	36.8 %	35.6 %
ROPOA, net	7.6 %	7.5 %	6.0 %	8.1 %	4.5 %
Other Assets	30.9 %	23.4 %	25.4 %	25.3 %	13.9 %
Total Liabilities and Capital	100.0%	100.0%	100.0%	100.0%	100.0%
Bills Payable	38.7 %	39.3 %	28.2 %	32.5 %	21.9 %
Other Liabilities	15.7 %	19.3 %	17.6 %	23.3 %	26.3 %
Capital Accounts	45.6 %	41.4 %	54.2 %	44.2 %	51.8 %

Capital accounts continued to be the main source of funds at 51.8 percent (vs. 44.2 percent a year ago) of total liabilities and capital accounts. This was followed by other liabilities at 26.3 percent (vs. 23.3 percent a year ago) and by bills payable at 21.9 percent (vs. 32.5 percent a year ago).

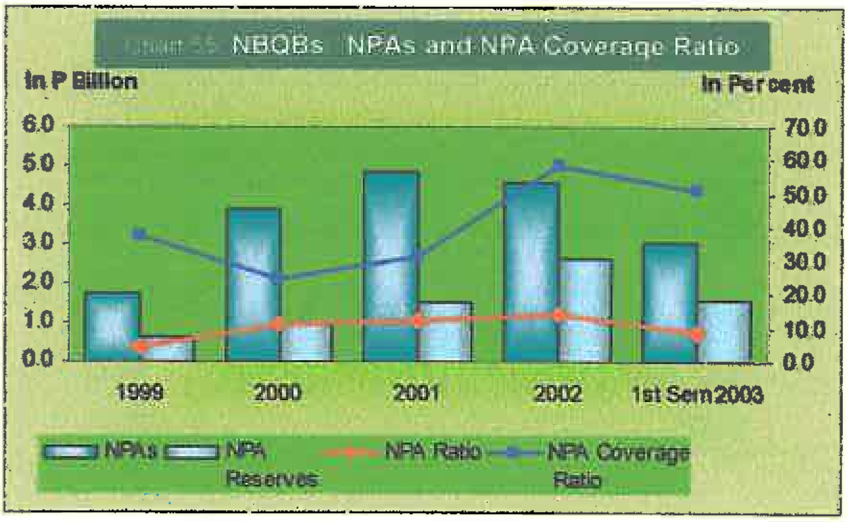
Source: Supervisory Reports & Studies Office, Supervision and Examination Sector

LOANS. Loan quality of NBQBs improved as NPLs (past due plus items in litigation) were reduced by 9.2 percent to ₱1.1 billion from ₱1.2 billion as of end-June 2002. Hence, the NPL ratio went down to 8.1 percent from 12.9 percent a year ago. (Chart 54)



Loan loss reserves, meanwhile, increased to ₱1.0 billion or by 19.1 percent from end-June 2002's ₱0.9 billion. As a result, the NPL coverage ratio further improved to 97.2 percent from the previous year's 74.1 percent.

NBQBs were also able to dispose substantial inventory of foreclosed assets as real and other properties owned or acquired in settlement of loans (ROPOA), gross was reduced by 42.0 percent or by P1.4 billion to P2.0 billion from P3.4 billion a year ago. This, together with a lower NPL level, reduced the NPA ratio to 8.6 percent from 11.7 percent a year ago (Chart 55). NPA coverage ratio, meanwhile, strengthened to 50.8 percent from 30.8 percent.



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

LIABILITIES. With relatively slower economic activity, NBQBs trimmed their higher cost market borrowings as bills payable fell by 37.1 percent or P4.2 billion to P7.3 billion from P11.5 billion a year ago. On the other hand, other liabilities account slightly rose by 5.6 percent or P0.5 billion to P8.7 billion. Advances from stockholders was the major component of other liabilities.

CAPITAL ACCOUNTS. The combined capital accounts of NBQBs stood at ₱17.2 billion, higher by 9.7 percent or ₱1.5 billion from a year ago. This resulted from the combined increase in capital stock and surplus, surplus reserves and undivided profits by 3.9 percent or ₱0.3 billion and by 16.9 percent or ₱1.2 billion, respectively.

Hence, together with a 6.5 percent decrease in total assets, total capital accounts to total assets firmed to 51.8 percent from 44.2 percent a year ago.

RESULTS OF OPERATIONS

NIAT of NBQBs for the first semester of 2003 was significantly higher by 171.2 percent over the same period a year ago. The increase in net profits to ₱1.4 billion stemmed primarily from the booking of extraordinary credits amounting to ₱0.8 billion (Table 60).

The comparative year-on-year figures for the first semester of 2002 and 2003 showed that the significant reduction in net interest income by 42.4 percent lowered total operating income by 6.6 percent. Net interest income was adversely affected by the narrowing of net interest margin (Chart 56). Non-interest income, on the other hand, slightly went up by 5.8 percent on account of gains realized from the trading of government securities.

Despite improvements in both NPL and NPA ratios and the 26.9 percent increase of loans, gross (excluding IBL), NBQBs' interest income fell by 47.1 percent or P0.4 billion over the same period a year ago. This can be attributed to the prevailing decline in interest rates, which in turn resulted in a lower earning asset yield of 6.0 percent compared to a year ago's 11.6 percent. Likewise, funding cost also decreased to 5.9 percent from 8.9 percent. The net effect was a reduced interest spread of 0.1 percent from 2.7 percent, the lowest since 2000.

Compared with the benchmark 91-day Treasury bill (T-bill) rate from end-year 1999 to end-June 2003, funding cost of NBQBs was above the T-bill rate during end-year 2000 from a high gap of 2.27 percent to a low of 0.3 percent. The slow business activity during end-year 2000 placed a premium in funding cost over the T-bill rate, prevailing until end-June 2003. Meanwhile, the general trend for low interest rates continued to narrow the gap between the earning asset yield and the T-bill rate from a high gap of 8.7 basis points to 0.4 basis points at the first half of 2003. (Chart 56)

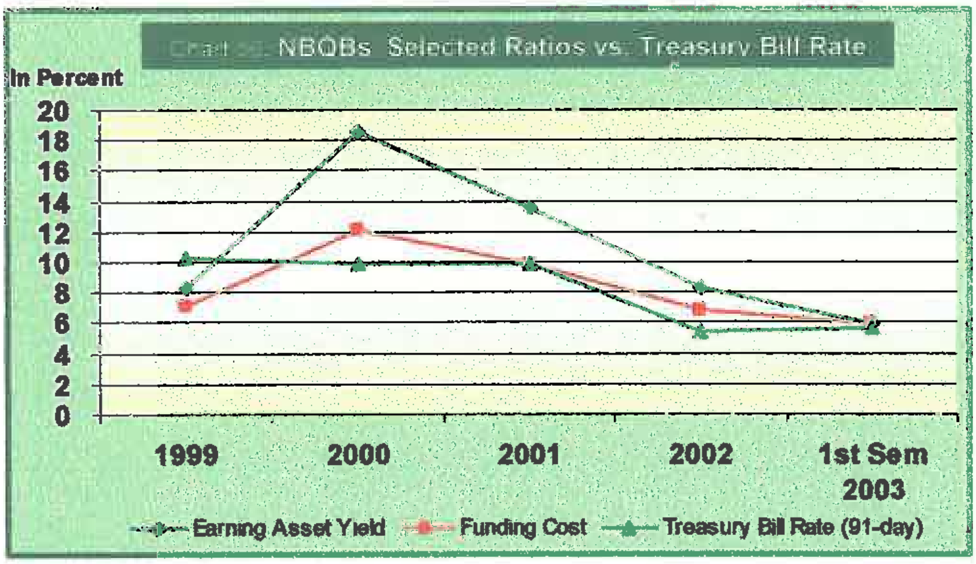


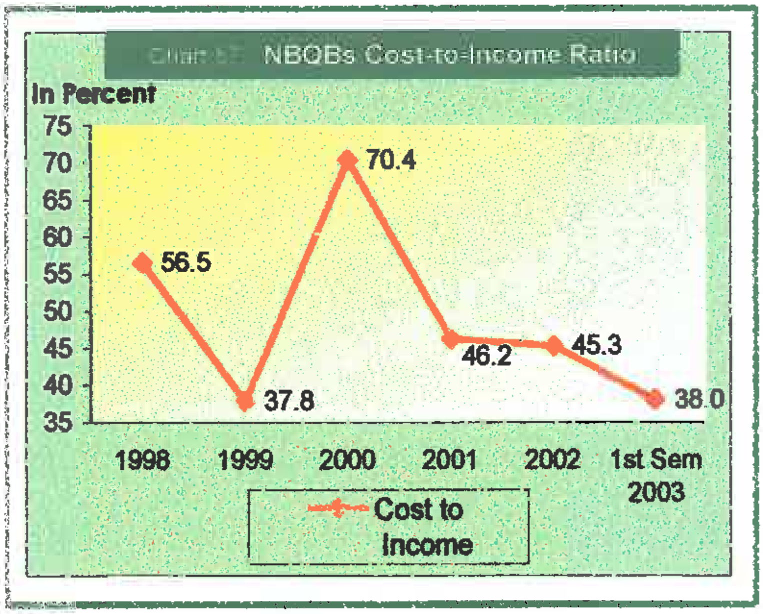
Table 60 NBQBs: Profitability Indicators

Levels (in Billion)	2000	2001	2002	First Semester 2002	First Semester 2003
Total Operating Income	3.9	3.1	2.4	1.4	1.3
Net Interest Income	1.8	1.1	0.8	0.4	0.2
Interest Income	3.4	2.5	1.6	0.8	0.4
Interest Expenses	1.6	1.4	0.8	0.5	0.2
Non-interest Income	2.1	2.0	1.7	1.0	1.1
Fee-based Income	0.8	0.7	0.7	0.5	0.3
Trading Income	0.5	0.1	0.2	0.3	0.6
Other Income	0.7	1.1	0.9	0.3	0.2
Operating Expenses	3.5	1.6	1.2	0.7	0.6
Bad Debts/Provisions for Probable Losses	0.7	0.1	0.1	···	0.1
Other Operating Expenses	2.7	1.4	1.1	0.7	0.5
Net Operating Income	0.4	1.5	1.3	0.6	0.7
Extraordinary Credits/(Charges)	1.1	0.4	0.2	···	0.8
Provisions for Income Tax	0.3	0.4	0.3	···	0.1
Net Income After Tax (NIAT)	1.2	1.5	1.2	0.5	1.4
Growth Rates					
Total Operating Income	37.3 %	(19.6 %)	(21.8 %)	19.6 %	(6.6 %)
Net Interest Income	121.3 %	(37.3 %)	(32.9 %)	(28.2 %)	(42.4 %)
Interest Income	122.8 %	(26.1 %)	(38.4 %)	(29.7 %)	(47.1 %)
Interest Expenses	124.5 %	(13.7 %)	(42.8 %)	(30.7 %)	(50.3 %)
Non-interest Income	3.2 %	(4.1 %)	(15.6 %)	55.7 %	5.8 %
Fee-based Income	88.0 %	(13.1 %)	(9.7 %)	48.9 %	(42.2 %)
Trading Income	(46.9 %)	(79.2 %)	43.7 %	(260.3 %)	116.7 %
Other Income	20.2 %	59.4 %	(24.7 %)	(43.5 %)	(20.5 %)
Operating Expenses	138.5 %	(54.7 %)	(25.9 %)	(3.4 %)	(15.9 %)
Bad Debts/Provisions for Probable Losses	91.2 %	(81.9 %)	(52.4 %)	(63.3 %)	206.7 %
Other Operating Expenses	156.0 %	(47.2 %)	(23.4 %)	8.0 %	(30.3 %)
Net Operating Income	(71.1 %)	291.0 %	(17.6 %)	66.6 %	4.4 %
Extraordinary Credits/(Charges)	817.4 %	(59.7 %)	(49.8 %)	(88.2 %)	1,975.1 %
Provisions for Income Tax	6.4 %	61.4 %	(29.9 %)	(16.2 %)	(41.4 %)
Net Income After Tax (NIAT)	(3.5 %)	29.4 %	(23.1 %)	(3.7 %)	171.2 %
Selected Ratios					
Earning Asset Yield 3/	18.6 %	13.5 %	8.2 %	11.6 %	6.0 %
Funding Cost 4/	12.1 %	9.8 %	6.9 %	8.9 %	5.9 %
Interest Spread 5/	6.4 %	3.7 %	1.3 %	2.7 %	0.1 %
Net Interest Margin 6/	9.7 %	6.0 %	4.0 %	5.3 %	3.1 %
Non-interest Income to Total Operating Income	53.4 %	63.7 %	68.8 %	70.3 %	74.0 %
Cost-to-Income Ratio 7/	70.4 %	46.2 %	45.3 %	44.7 %	38.0 %
Return on Assets (ROA)	3.1 %	4.1 %	3.4 %	4.1 %	6.1 %
Return on Equity (ROE)	7.8 %	9.5 %	7.3 %	9.4 %	12.2 %

1/ Revised
2/ Annualized; first semester ratios based on second half of previous year plus first half of the current year
3/ Earning Asset Yield refers to the ratio of interest income to average earning assets
4/ Funding Cost refers to the ratio of interest expenses to average interest-bearing liabilities
5/ Interest Spread refers to the difference between earning asset yield and funding cost
6/ Net Interest Margin refers to the ratio of net interest income to average earning assets
7/ Cost-to-Income Ratio refers to operating expenses, exclusive of bad debts and provisions to total operating income
··· *Less than P50 million*

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

Meanwhile, cost-to-income ratio for the one-year period ended 30 June 2003 improved to 38.0 percent from 44.7 percent (Chart 57). This improvement was traced to the 30.3 percent or ₱0.2 billion reduction in operating expenses, net of bad debts/provisions for probable losses. Both return on assets (ROA) and return on equity (ROE) ratios also improved to 6.1 percent from 4.1 percent and to 12.2 percent from 9.4 percent, respectively.



OFFSHORE BANKING SYSTEM

As of end-June 2003, the offshore banking system was further downsized with the closure of one OBU. Total assets stood at US$617 million, 10.7 percent or US$17 million lower than end-June 2002 level of US$691 million. Despite the decline in assets, results of operations registered net income after tax (NIAT) of US$4.0 million from nil at end-June 2002.

Bank of Nova Scotia, a Canadian OBU ceased operations in May 2003, bringing down to 10 the number of OBUs operating in the country, broken down as follows: (6) from Europe, (3) from America and (1) from Asia.

Borrowings from head office/other branches was still the main source of funding, which at end-June 2003 was US$335 million or 54.3 percent of total liabilities. This was, however, lower by 25.6 percent or US$115 million from end-June 2002. Inter-bank borrowings followed which increased by 13.0 percent or US$27 million from US$207 million to US$234 million. Deposits of non-residents other than banks also rose by 30.8 percent or US$8 million from US26 million to US34 million, and other liabilities went up by 75.0 percent or US$6 million from US$8 million to US$14 million.

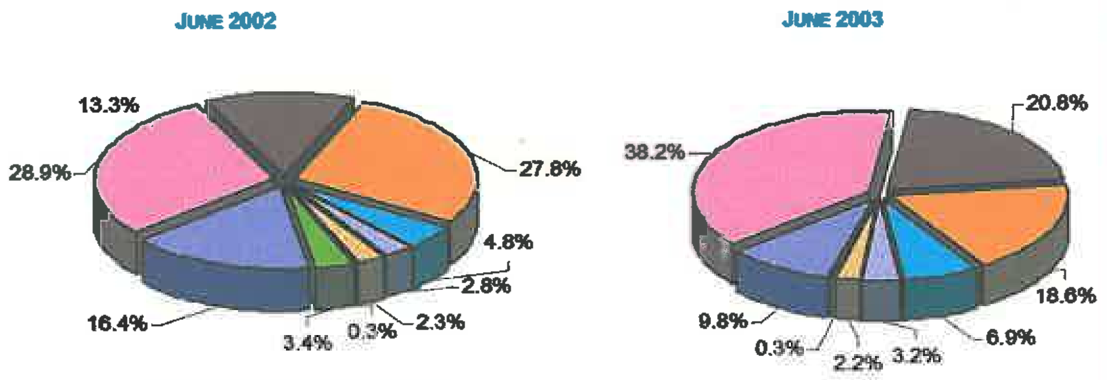
OBU funds were lent to resident borrowers (US$317 million), invested in debt securities (US$172 million) and lent to local banks including the Bangko Sentral ng Pilipinas (US$115 million). These comprised 57.4 percent, 27.9 percent and 18.6 percent, respectively, of total assets.

All asset components declined except due from other banks, which increased by 4.0 percent from US$150 million to US$156 million. The increase, however, was to other non-resident banks which increased from US$11 million to US$42 million. Due from resident-banks actually declined from US$139 million to US$115 million. Likewise, investments in securities by non-resident issuers continued to rise by 14.0 percent (from US$129 million to US$147 million), while investments in securities by resident issuers went down by 64.8 percent (from US$71 million to US$25 million).

Loans and discounts further contracted by 12.3 percent (US$50 million) from US$360 million a year ago to US$355 million, for which additional provisions for probable losses of US$57 million was provided. Resident borrowers remained the main beneficiaries of lending activities of OBUs as their combined loans of US$317 million comprised 89.2 percent of the total loans and discounts (gross). The balance of US$38 or 10.8 percent of total loans gross was lent to non-residents, a decrease of US$14 million from a year ago.

The manufacturing sector still held the biggest chunk of credits to resident borrowers at 38.2 percent (from 28.9 percent a year ago) of total loans to residents. This was followed by the electricity, gas and water supply sector with 20.8 percent (from 13.3 percent) which replaced the transportation, storage and communications sector with 18.6 percent (from 27.8 percent). Next was the mining and quarrying sector with 6.9 percent (from 4.8 percent) replacing the construction sector. The rest of the industry sectors maintained their year ago standings. (Chart 58)

Chart 58 OBUs: Concentration of Domestic Credits
By Industry Sector



US$453 Million

US$317 Million

	2002	2003
Manufacturing	28.9%	38.2%
Electricity, Gas & Water	13.3%	20.8%
Transportation, Storage & Communications	27.8%	18.6%
Mining & Quarrying	4.8%	6.9%
Financial Intermediation	2.8%	3.2%
Agriculture, Fishery & Forestry	2.3%	2.2%
Pub. Adm. & Defense; Compulsory Social Sec.	0.3%	0.3%
Construction	3.4%	-
Others	16.40%	9.8%

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

As to maturity, 47.0 percent or US$149 million of the total loans to residents were medium term; 28.7 percent or US$91 million were short-term and 24.3 percent or US$77 million were long-term.

Table 51 OBUs Financial Highlights

	End December			End June	
	2000	2001	2002	2002 1/	2003
Balance Sheet					
Total assets	1,124	761	577	691	617
Due from other banks	362	181	163	150	156
Loans (gross)	553	443	332	719	702
Allowance for probable losses	34	96	86	28	85
Loans (net)	519	347	246	691	617
Investment in bonds and other securities	181	211	148	199	172
Other assets	62	22	20	(35)	19
Deposits of non-residents other than banks	36	38	29	26	34
Due to other banks	259	183	212	207	234
Other liabilities	59	7	16	8	14
Net due to head office/other branch	770	533	320	450	335
Income Statement					
Total operating income	44	23	20	7	8
Net interest income	26	24	21	9	3
Non-interest income	18	(1)	(1)	(2)	5
Operating expenses, of which:	47	26	16	7	5
Provisions for probable losses	19	8	3	2	0
Net operating income/loss	(3)	(3)	3	-	4
Net income/loss after tax (NIAT)	(3)	(3)	3	-	4

1/ *Revised*

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

Table 62 OBUs: Selected Performance Indicators

[illegible]

	End-December			End-June	
	2000	2001	2002	2002	2003
Balance Sheet					
Total assets	(14.7%)	(32.3%)	(24.2%)	(13.4%)	(10.7%)
Due from other banks	(15.4%)	(50.0%)	(9.4%)	(33.0%)	4.0%
Loans (gross)	(35.4%)	(19.9%)	(25.1%)	(16.3%)	(12.3%)
Allowance for probable losses	(61.4%)	182.4%	(10.4%)	(72.8%)	203.6%
Loans (net)	(32.4%)	(33.1%)	(29.1%)	(1.0%)	(28.4%)
Investment in bonds and other securities	123.5%	16.6%	(29.9%)	19.9%	(13.6%)
Other assets	55.0%	(64.5%)	(9.1%)	(229.6%)	154.3%
Deposits of non-residents other than banks	12.5%	5.6%	(23.7%)	(18.8%)	30.8%
Due to other banks	28.2%	(29.3%)	15.8%	1970.0%	13.0%
Other liabilities	34.1%	(88.1%)	128.6%	(50.0%)	75.0%
Net due to head office/other branch	(25.9%)	(30.8%)	(40.0%)	(39.2%)	(25.6%)
Income Statement					
Total operating income	37.5%	(47.7%)	(13.0%)	-	14.3%
Net interest income	36.8%	(7.7%)	(12.5%)	-	(66.7%)
Non-interest income	38.5%	(105.6%)	-	-	350.0%
Operating expenses, of which:	(20.3%)	(44.7%)	(38.5%)	(30.0%)	(28.6%)
Provisions for probable losses	(44.1%)	(57.9%)	(62.5%)	-	(100.0%)
Net operating income/loss	88.9%	-	200.0%	100.0%	-
Net income/loss after tax (NIAT)	88.9%	-	200.0%	100.0%	-
Selected Ratios					
Profitability					
Cost-to-income ratio 3/	63.5%	78.3%	65.0%	65.2%	61.9%
Return on assets (ROA)	(0.2%)	(0.3%)	(0.1%)	(0.4%)	0.6%

1/ Revised

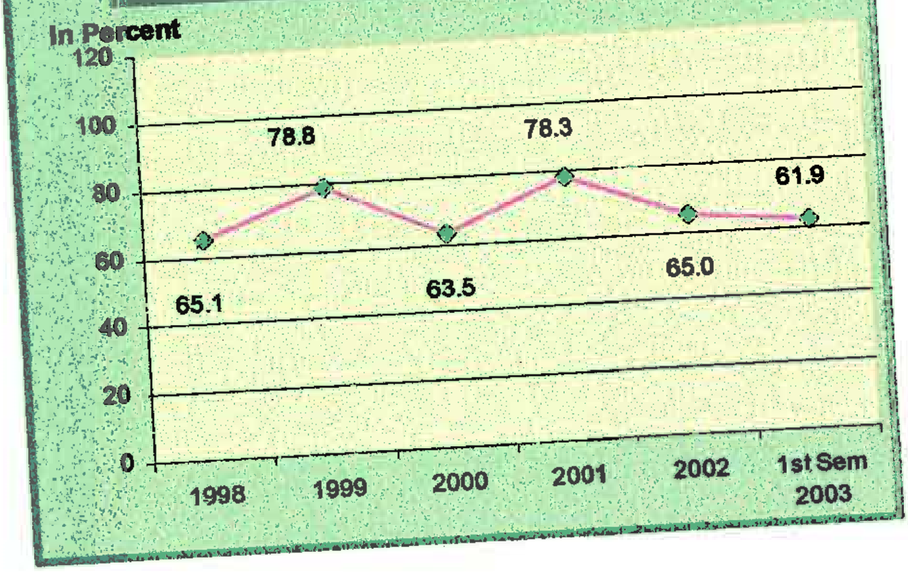
2/ End-June ratio annualized; first semester ratios based on second half of previous year plus first half of the current year

3/ Cost-to-Income Ratio refers to operating expenses, eclusive of bad debts and providions to total operating income

RESULTS OF OPERATIONS

OBUs registered NIAT of US$4 million for the six-month period ended 30 June 2003 after breaking-even in the same period last year. Operating income increased slightly by US$1 million or 14.3 percent from US$7 million to US$8 million while overhead costs were maintained at US$5 million, resulting in a slightly lower cost-to-income ratio of 61.9 percent from 65.0 percent over the same period a year ago. Non-interest income (comprising of trading income – US$3 million, fee-based income – US$1.0 million and other income – US$1.0 million) was the major component of operating income at 62.5 percent while net interest income was only 37.5 percent (US$3 million). Contributing to the positive bottom-line figure was the elimination of further loan loss provisioning.

Chart 59 OBUs: Cost-to-Income Ratio



For the first semester of 2003, OBUs posted a turnaround in return on assets (ROA) ratio to 0.6 percent from the negative ratios since 2000.