Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs)

Overview

The NBQB industry reported sound financial results as of end-year 2010. Key indicators showed modest growth in assets and loans, supported by steady funding and adequate capitalization. Moreover, the industry posted improved operational efficiency and higher earnings.

Total assets reached P139.3 billion, up by 16.0 percent from P120.1 billion last year. By sub-group, investment houses with quasi-banking function (IHs with QB) held a larger block of the industry's total assets with 52.2 percent (P72.7 billion). Financing companies with quasi-banking function (FCs with QB) accounted for the remaining 47.8 percent (P66.6 billion) share.

In terms of asset composition, loans, net (exclusive of interbank loans) remained as the largest component of total assets at 40.2 percent or P56.0 billion (up from 35.5 percent or P42.6 billion last year). Investments, net closely followed at 39.7 percent or P55.3 billion (down from 42.9 percent but up from P51.5 billion).

Liquidity position remained adequate in spite of the decline in liquid assets-to-bills payable ratio to 60.9 percent from 66.9 percent last year. Cash and due from banks-to-bills payable ratio also dropped to 18.6 percent from 19.9 percent. Meantime, loans-to-bills payable ratio climbed to 58.8 percent from 50.8 percent as loans, gross grew at a faster rate than bills payable.

In terms of asset quality, non-performing loans (NPL) ratio improved to 4.1 percent from last year's 4.5 percent as the 21.1 percent hike in NPLs to P2.4 billion was outpaced by the larger expansion in loans. On the other hand, non-performing assets (NPA) ratio slightly went up to 3.0 percent from 2.9 percent as the 20.3 percent rise in NPAs to P4.3 billion was faster than the growth in gross assets. The growth in NPAs from last year was fueled by the 19.3 percent increase in real and other properties acquired (ROPA) to P1.9 billion.

By sub-group, IHs with QB posted better NPL and NPA ratios both at 1.7 percent. Similar ratios for FCs with QB were likewise the same, both at 4.5 percent.

On the funding side, bills payable was the industry's primary source of funding, accounting for 71.1 percent (down from 73.0 percent last year) of total resources. Capital accounts came second with a share of 20.8 percent (up from 19.7 percent). Other liabilities accounted for the balance at 8.0 percent (up from 7.2 percent) share. All major sources of funding posted growth from last year. Bills payable rose by 13.0 percent to P99.1 billion from P87.7 billion. Total capital accounts went up by 22.5 percent to P29.0 billion from P23.7 billion. Likewise, other liabilities grew by 29.0 percent to P11.2 billion from P8.7 billion. Deposit substitutes, which accounted for 76.4 percent of total bills payable, likewise climbed by 0.5 percent to P75.7 billion from P75.3 billion last year.

The industry remained adequately capitalized as the ratio of total capital accounts to total assets went up to 20.8 percent from 19.7 percent last year. Meantime, total capital accounts also rose by 22.5 percent to P29.0 billion from P23.7 billion.

For the year ended 31 December 2010, NBQBs yielded a net profit of P4.5 billion, up by 25.0 percent from P3.6 billion last year. The higher bottom line resulted from the 26.3 percent rise in total operating income to P12.5 billion from P9.9 billion, which outpaced the 22.0 percent hike in operating expenses to P7.5 billion from P6.1 billion.

Despite a higher net profit, the industry's return on assets (ROA) and return on equity (ROE) ratios remained unchanged from last year at 3.5 percent and 17.2 percent, respectively. This took place as the rise in net profit was nearly matched by the growth in both average assets and average capital. Meantime, NBQBs remained prudent in managing operating costs as manifested by the lower cost-to-income ratio of 42.6 percent as against last year's 44.2 percent.

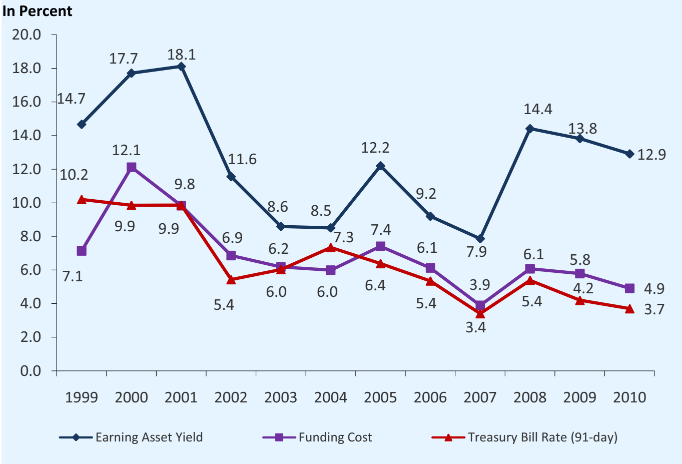
Operating Network

As of end-year 2010, the number of NBQBs operating in the country stood at 15 (six IHs with QB, eight FCs with QB and one non-bank with QB). The total number of NBQB offices, on the other hand, stood at 38 (15 head offices and 23 branches/other offices). The number of NBQBs increased by one from 14 last semester as UCPB Leasing and Finance Corporation (ULFC) was given authority to engage in quasi-banking activities effective 2 September 2010.

Results of Operations

For the year ended 31 December 2010, the industry yielded a net profit of P4.5 billion, up by 25.0 percent from P3.6 billion same period last year. The higher bottom line resulted from the 26.3 percent rise in total operating income to P12.5 billion from P9.9 billion, which outpaced the 22.0 percent hike in operating expenses to P7.5 billion from P6.1 billion.

Non-Banks with Quasi-Banking Functions (NBQBs)
Selected Ratios vs. 91-day Treasury Bill Rate



By sub-group, IHs with QB accounted for 59.3 percent or P2.7 billion (up from 57.0 percent or P2.1 billion last year) of the total net profits of the industry. FCs with QBs' share stood lower at 40.7 percent or P1.8 billion (down from 43.0 percent but up from P1.6 billion).

Total operating income amounted to P12.5 billion, up by 26.3 percent from P9.9 billion last year. Higher operating income resulted from the simultaneous increase in net interest income by 21.6 percent to P7.4 billion and non-interest income by 33.8 percent to P5.2 billion.

The year-on-year hike in net interest income transpired as the 14.4 percent increase in interest income outpaced the 4.3 percent rise in interest expenses. Meantime, the growth in non-interest income stemmed from the simultaneous growth in all non-interest income accounts: fee-based income by 21.0 percent, trading income by 103.4 percent and other income by 10.9 percent.

Operating expenses stood at P7.5 billion, up by 22.0 percent from P6.1 billion last year. The hike in expenses was driven by the 21.7 percent rise in other operating expenses to P5.3 billion from P4.4 billion. Similarly, bad debts and provisions for probable losses climbed by 22.8 percent to P2.1 billion from P1.7 billion last year.

As to composition of operating expenses, overhead costs and other expenses comprised the bulk of total operating expenses at 71.4 percent (down from 71.6 percent last year). Bad debts and provisions for probable losses made up only 28.6 percent (up from 28.4 percent).

The 26.3 percent rise in operating income, which outpaced the 22.0 percent increase in operating expenses resulted in the 33.3 percent growth in net operating income to P5.1 billion from last year's P3.8 billion.

NBQBs mainly depended on traditional sources of revenue as net interest income accounted for a larger block of total operating income at 58.9 percent (down from 61.2 percent last year). Non-interest income accounted for only 41.1 percent (up from 38.8 percent).

Meanwhile, extraordinary credits were reduced by 35.5 percent to P0.6 billion from P0.9 billion, driven by the substantial 79.4 percent decline in profit from assets sold/exchanged to P0.1 billion from P0.5 billion.

Despite higher net profit, return on assets (ROA) and return on equity (ROE) ratios remained unchanged from last year at 3.5 percent and 17.2 percent, respectively, as the rise in income was nearly matched by the growth in both average assets and average capital.

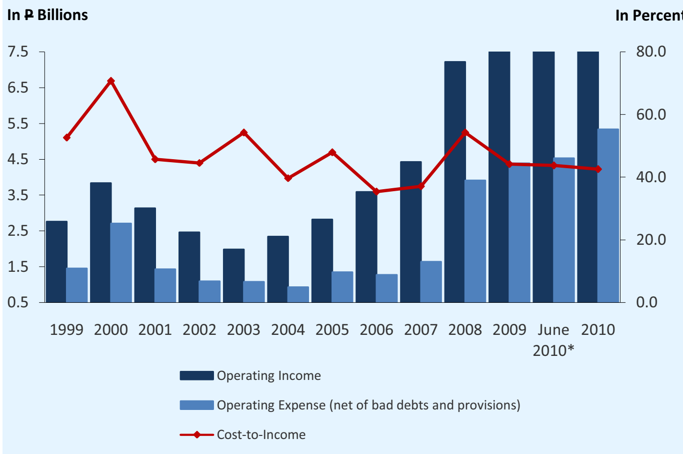
On a sub-group basis, FCs with QB's ROA and ROE ratios stood at 3.1 percent and 18.8 percent (down from 3.5 percent and 21.6 percent last year), respectively. On the other hand, IHs with QB's ROA and ROE ratios settled at 3.8 percent and 16.3 percent (up from 3.4 percent and 14.9 percent), respectively.

Earning asset yield dropped to 12.9 percent from 13.8 percent in 2009. On the other hand, the benchmark T-bill rate fell to 3.7 percent from 4.2 percent in 2009. As a result, the spread between earning asset yield and the 91-day T-bill rate narrowed to 920 basis points from 960 basis points mainly due to the steeper decline in earning asset yield.

Funding cost went down to 4.9 percent from 5.8 percent in 2009. However, interest spread was maintained at 8.0 percent as funding cost fell at almost the same pace as earning asset yield. Meantime, the spread between funding cost and risk-free government securities narrowed to 120 basis points from 160 basis points, indicating better returns to lenders this period compared to 2009.

The industry operated more efficiently as the cost-to-income ratio dropped to 42.6 percent from 44.2 percent last year. This improvement came about as the 26.3 percent growth in operating income outweighed the 21.7 percent hike in operating expenses, net of bad debts written off and provisions. By sub-group, FCs with QB's cost-to-income ratio climbed to 48.6 percent from 45.9 percent last year. In contrast, IHs with QB's ratio improved to 31.6 percent from 40.4 percent.

Non-Banks with Quasi-Banking Functions (NBQBs)
Cost-to-Income Ratio



Major Balance Sheet Trends

Non-Banks with Quasi-Banking Functions (NBQBs)
Balance Sheet Structure

Major Accounts	2006	2007	2008	2009	2010
Total Assets	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Cash and Due from Banks	14.4 %	14.2 %	14.6 %	14.6 %	13.2 %
Interbank Loans Receivable (IBL)	1.9 %	0.2 %	0.4 %	0.5 %	0.3 %
Loans, net	17.9 %	19.8 %	37.4 %	35.5 %	40.2 %
Investments, net	56.2 %	57.9 %	39.8 %	42.9 %	39.7 %
ROPA, net	2.4 %	2.0 %	1.5 %	1.2 %	1.1 %
Other Assets	7.2 %	5.9 %	6.2 %	5.4 %	5.5 %
Total Liabilities and Capital	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Liabilities	**67.8 %**	**68.4 %**	**79.0 %**	**80.3 %**	**79.2 %**
Bills Payable	62.5 %	65.0 %	72.1 %	73.0 %	71.1 %
Deposit Substitutes	60.2 %	58.4 %	58.5 %	62.7 %	54.3 %
Others	2.2 %	6.6 %	13.6 %	10.3 %	16.8 %
Other Liabilities	5.3 %	3.3 %	6.9 %	7.2 %	8.0 %
Total Capital Accounts	**32.2 %**	**31.6 %**	**21.0 %**	**19.7 %**	**20.8 %**
Capital Stock	18.4 %	17.9 %	13.6 %	10.9 %	9.7 %
Surplus, Surplus Reserves & Undivided Profits	13.8 %	13.7 %	7.4 %	8.9 %	11.1 %

Figures may not add up due to rounding-off

Assets

The NBQB industry maintained its asset growth momentum – albeit at a slower pace compared to previous years – with majority of asset accounts posting year-on-year increments. Total assets grew by 16.0 percent to P139.3 billion from P120.1 billion last year. Except for interbank loans receivable which declined by P0.1 billion or 21.3 percent, the following asset accounts recorded year-on-year expansion: loans, net exclusive of interbank loans (P13.4 billion or 31.6 percent); other assets (P1.1 billion or 17.5 percent); real and other properties acquired (ROPA), net (P0.1 billion or 7.8 percent); investments, net (P3.8 billion or 7.3 percent); and cash and due from banks (P0.9 billion or 5.3 percent).

Both of the industry's sub-groups registered asset growth. Total assets of IHs with QB went up by 8.0 percent to P72.7 billion from P67.4 billion last year and held the bulk or 52.2 percent of total assets of the industry. Likewise, total assets of FCs with QB climbed by 26.3 percent to P66.6 billion from P52.7 billion. This accounted for 47.8 percent of the industry's resources.

In terms of asset distribution, loans and investments still held the biggest share of the asset pie, cornering 79.9 percent of total NBQB assets. Loans, net (exclusive of IBL) held 40.2 percent share (up from 35.5 percent last year ago) while investments, net accounted for a 39.7 percent share (down from 42.9 percent). The remaining 20.1 percent consisted of: cash and due from banks at 13.2 percent share (down from 14.6 percent), other assets at 5.5 percent share (slightly up from 5.4 percent last year), ROPA, net at 1.1 percent share (slightly down from 1.2 percent), and interbank loans at 0.3 percent share (down from 0.5 percent).

IHs with QB channeled the bulk of their resources to investments which represented 73.2 percent share of total assets or P53.2 billion (down from 74.4 percent share or P50.1 billion last year). This was followed by cash and due from banks at 13.5 percent share or P9.8 billion (down from 15.5 percent share or P10.4 billion) and loans, net (inclusive of interbank loans) at 9.6 percent or P7.0 billion (up from a 5.0 percent share or P3.4 billion). Finally, other assets shrank to a 3.7 percent share or P2.7 billion (down from 5.2 percent share or P3.5 billion).

FCs with QB had 74.3 percent (P49.5 billion) of total assets in loans, net (inclusive of interbank loans) marginally lower from 75.5 percent (but up from P39.8 billion) last year. Cash and due from banks remained a distant second at 12.9 percent share of total assets, although the level increased to P8.6 billion from P7.1 billion. Other assets (inclusive of ROPA) increased slightly for a 9.7 percent share or P6.5 billion (from last year's 8.4 percent share or P4.4 billion). Lastly, investments, net rose to a 3.1 percent share or P2.0 billion (up from 2.6 percent share or P1.4 billion).

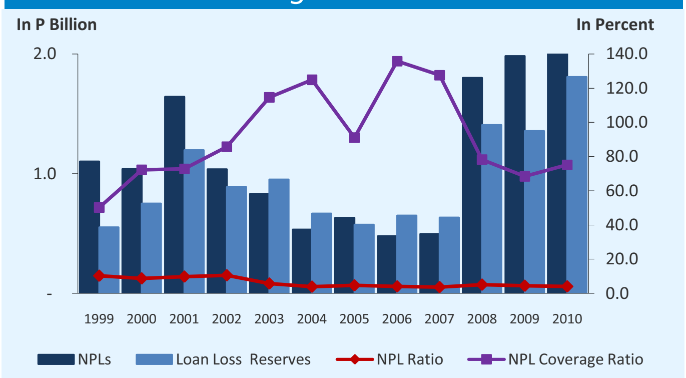
As of end-year 2010, the industry remained liquid despite the easing of key liquidity ratios. Liquid assets-to-bills payable ratio fell to 60.9 percent from 66.9 percent, while cash and due from banks-to-bills payable ratio slid to 18.6 percent from 19.9 percent. Conversely, loans, gross-to-bills payable ratio rose to 58.8 percent from 50.8 percent as loans grew at a faster rate than bills payable.

Loans

The NPL ratio improved to 4.1 percent from 4.5 percent at end-year 2009 as the 21.1 percent growth in NPLs to P2.4 billion from P2.0 billion was outweighed by the larger expansion in TLP.

Exclusive of interbank loans, the NPL ratio likewise eased to 4.2 percent from 4.5 percent as TLP, net (excluding interbank loans) rose faster than the NPL growth. In terms of provisioning for bad loans, the industry beefed up loan loss reserves by 33.3 percent which boost the NPL coverage ratio to 75.2 percent from 68.4 percent.

Non-Banks with Quasi-Banking Functions (NBQBs)
NPLs and NPL Coverage Ratio



On a sub-group basis, NPL ratio of FCs with QB remained unchanged at 4.5 percent as the 24.5 percent expansion in TLP slightly outpaced the 22.8 percent growth in NPL. Meantime, the NPL coverage ratio went up to 63.2 percent from 59.2 percent as the 31.1 percent rise in LLRs outweighed the growth in NPLs.

IHs with QB performed better as NPL ratio further eased to 1.7 percent from 3.6 percent last year. This developed as a result of the 103.7 percent growth in TLP and the 2.7 percent reduction in NPLs. As to loss provisions, the 42.6 percent hike in loan loss reserves coupled with the decline in NPLs further boosted the NPL coverage ratio to 291.5 percent from 198.8 percent.

The industry's NPA ratio went up slightly to 3.0 percent from 2.9 percent at end-year 2009. This transpired as the 16.4 percent expansion in gross assets to P141.5 billion was surpassed by the 20.3 percent increase in NPAs.

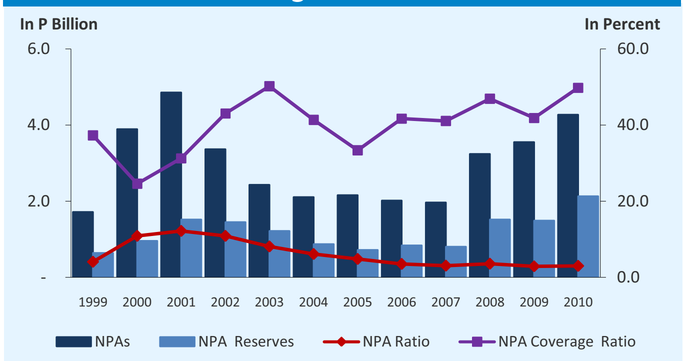
Loss provisions for NPAs were raised by 43.1 percent to P2.1 billion from P1.5 billion last year. This growth outmatched the increment in NPAs, strengthening the NPA coverage ratio to 49.8 percent from 41.9 percent.

By sub-group, IHs with QB posted better NPA ratio during the period compared to FCs with QB. The latter's NPA ratio stood at 4.5 percent from 4.2 percent last year as the 26.5 percent growth in gross assets was overshadowed by the 33.9 percent rise in NPAs. On the other hand, the 3.8 percent drop in the NPAs of IHs with QB coupled with the 8.3 percent increase in gross assets led to an improvement in the sub-group's NPA ratio which stood at 1.7 percent from 1.9 percent.

In terms of loss provisioning, both sub-groups recorded better NPA coverage ratios during the semester. FCs with QB posted an NPA coverage ratio of 51.6 percent from 50.9 percent. IHs with QB significantly improved their NPA coverage ratio to 45.6 percent from 25.9 percent.

Non-Banks with Quasi-Banking Functions (NBQBs)

NPAs and NPA Coverage Ratio



Liabilities

The industry's total liabilities amounted to P110.3 billion, up by 14.4 percent (P13.9 billion) from last year's P96.4 billion. Bills payable, which comprised 89.8 percent of total liabilities, grew by 13.0 percent to P99.1 billion from P87.7 billion. Other liabilities, which represented the remaining 10.2 percent share of total liabilities, also rose by 29.0 percent to P11.2 billion from P8.7 billion.

Meantime, the breakdown of bills payable showed that deposit substitutes made up the bulk of total bills payable at 76.4 percent share. Deposit substitutes rose by 0.5 percent to P75.7 billion from P75.3 billion last year. The remaining 23.6 percent share was accounted for by other bills payable, which climbed by 88.5 percent to P23.4 billion from P12.4 billion.

As to funding mix, deposit substitutes remained as the industry's biggest source of funds at 54.3 percent share of total liabilities and capital. Other sources of funding had the following shares: other bills payable at 16.8 percent, retained earnings and undivided profits at 11.1 percent, capital stock at 9.7 percent and other liabilities at 8.0 percent.

Capital Accounts

Total capital accounts reached P29.0 billion, up by 22.5 percent from last year's P23.7 billion. The increase in capital stemmed from the simultaneous growth in capital stock and retained earnings and undivided profits by 3.9 percent to P13.5 billion and by 45.3 percent to P15.5 billion, respectively. By component, retained earnings and undivided profits made up the larger portion of the capital base at 53.4 percent share. Capital stock comprised the balance of 46.6 percent.

By sub-group, IHs with QB held a bigger slice of the capital base at 61.9 percent (P18.0 billion). FCs with QB accounted for the remaining share of 38.1 percent (P11.1 billion).

FCs with QB posted higher retained earnings and undivided profits by 43.1 percent to P6.3 billion from P4.4 billion last year while their capital stock grew by 12.3 percent to P4.8 from P4.3 billion. For IHs with QB, retained earnings and undivided profits also increased by 46.9 percent to P9.2 billion from P6.3 billion while their capital stock was reduced by 0.2 percent to P8.7 billion from P8.8 billion.

The industry remained-well capitalized. Total capital accounts-to-total assets ratio rose to 20.8 percent from 19.7 percent last year. By sub-group, IHs with QB reported a higher total capital accounts-to-total assets ratio of 24.7 percent (up from 22.3 percent last year) as against FCs with QB's 16.6 percent (up from 16.4 percent).

Non-Stock Savings and Loan Associations (NSSLAs)

Overview

The NSSLAs sustained their expansion in 2010 as reflected in the industry's balance sheet, with most of its key accounts posting strong growths and performance ratios showing positive developments. The industry's resources posted double digit growth on the back of substantial increases in capital accounts and deposit liabilities. Asset quality and solvency continued to improve on account of sustained implementation of reforms.

Total assets expanded by 11.5 percent (P10.4 billion) to P100.9 billion from P90.5 billion in 2009. Loan and investment portfolios were the main recipients of growth. Loans, net expanded by P13.0 billion (22.0 percent) to P72.0 billion while investments, net went up by P2.1 billion (20.1 percent) to P12.5 billion. This resulted to increased proportions of loans, net and investments, net over total assets to 71.3 percent (up from 65.2 percent in 2009) and 12.4 percent (up from 11.5 percent), respectively.

In contrast with the banking sector, the NSSLA industry relied mostly on capital contributions of members to fund asset expansion. Of the P10.4 billion growth in resources of the industry in 2010, a total of P8.9 billion (85.6 percent) came from total capital accounts which expanded by 12.7 percent to P79.2 billion from P70.3 billion last year. Accordingly, the share of capital accounts to total resources was further raised to 78.5 percent from 77.7 percent. A large part of the capital base came from paid-in capital of members at 88.1 percent while the remaining 11.9 percent was derived from retained earnings and undivided profits.

Meantime, liquidity remained sufficient despite the decline in the ratio of liquid assets to deposit liabilities to 132.5 percent from 173.7 percent last year.

Loan and asset quality improved from last year. As the stock of non-performing loans (NPL) declined by 5.0 percent to P10.9 billion from P11.4 billion last year, the NPL ratio eased to 13.6 percent from 17.3 percent. Similarly, the non-performing assets (NPA) ratio improved to 10.1 percent from 11.8 percent due to the 4.5 percent contraction in NPAs to P11.0 billion from P11.5 billion.

Operating Network

As of end-year 2010, the number of operating NSSLAs stood at 70, same as last year. Meanwhile, the number of branches and other offices went up to 96 from 94. These brought the total number of NSSLA offices to 166 from 164.

Major Balance Sheet Trends

Assets

As of end-year 2010, total assets expanded by 11.5 percent (P10.4 billion) to P100.9 billion from P90.5 billion last year. The expansion in assets was driven by the double-digit growth in lending activities, investments and other assets which outweighed the decline in cash and due from banks.

Loans, net markedly grew by 22.0 percent (P13.0 billion) to P72.0 billion at end-2010 from P59.0 billion the previous year. Likewise, investment, net increased by 20.1 percent (P2.1 billion) to P12.5 billion from P10.4 billion. Other assets also rose by 23.0 percent (P1.0 billion) to P5.2 billion from P4.2 billion. On the other hand, cash and due from banks contracted by 34.0 percent (P5.7 billion) to P11.1 billion from P16.8 billion. This was the second consecutive year that cash and due from banks declined. At end-2009, the account went down by 21.1 percent (P4.5 billion) from P21.3 billion in 2008.

Non Stock Savings and Loan Associations (NSSLAs) Balance Sheet Structure

Major Accounts	2006	2007	2008	2009	2010
Total Assets	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Cash and Due from Banks	17.5 %	21.3 %	26.5 %	18.5 %	11.0 %
Loans, net	70.5 %	64.6 %	62.7 %	65.2 %	71.3 %
Investments, net	7.3 %	10.0 %	6.9 %	11.5 %	12.4 %
ROPA, net	0.0 %	0.1 %	0.1 %	0.1 %	0.1 %
Other Assets	4.6 %	4.1 %	3.8 %	4.7 %	5.2 %
Total Liabilities and Capital	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Liabilities	**13.9 %**	**19.1 %**	**21.2 %**	**22.3 %**	**21.5 %**
Deposits	9.8 %	14.3 %	15.4 %	17.3 %	17.6 %
Bills Payable	0.8 %	0.7 %	0.8 %	0.8 %	0.4 %
Other Liabilities	3.3 %	4.1 %	5.0 %	4.2 %	3.5 %
Capital Accounts	**86.1 %**	**80.9 %**	**78.8 %**	**77.7 %**	**78.5 %**
Paid-In Capital	77.2 %	71.1 %	69.3 %	68.6 %	69.2 %
Surplus, Surplus Reserves and Undivided Profits	8.9 %	9.8 %	9.5 %	9.1 %	9.3 %

Figures may not add up due to rounding-off

By composition, loans, net still accounted for the bulk of total assets at 71.3 percent (up from 65.2 percent last year) followed by investments, net at 12.4 percent (up from 11.5 percent), cash and due from banks at 11.0 percent (down from 18.5 percent), other assets at 5.2 percent (up from 4.7 percent) and real and other properties owned or acquired (ROPA) at 0.1 percent (same as last year).

Capital accounts continued to be the main source of funds with its share to total resources at 78.5 percent as of end-year 2010, up from 77.7 percent last year. Meantime, total liabilities funded the remaining 21.5 percent share of total resources.

Total liabilities increased by 7.2 percent (P1.5 billion) to P21.7 billion at end-year 2010 from P20.2 billion last year. It is composed mainly by members' deposits with 82.1 percent share (up from 77.4 percent last year), other liabilities with 16.1 percent (down from 18.9 percent) and bills payable with 1.8 percent (down from 3.7 percent).

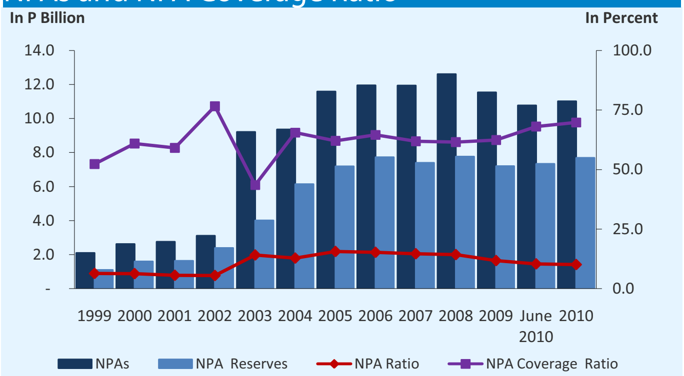
Loans

Loan expansion during the year was supported by an improvement in loan and asset quality. As of end-year 2010, total loan portfolio, gross expanded by 20.4 percent to P79.7 billion from P66.2 billion last year.

Meantime, the stock of NPLs contracted by 5.0 percent to P10.9 billion from P11.4 billion last year. The decline in NPLs combined with the expansion in total loan portfolio, gross resulted to the easing of the NPL ratio to 13.6 percent from 17.3 percent. Moreover, the improvement in loan quality and the additional 6.9 percent in loan loss provisioning widened the NPL coverage ratio to 70.7 percent from 62.9 percent.

Non-Stock Savings and Loan Associations

NPAs and NPA Coverage Ratio



NPAs and NPA Coverage Ratio

Similarly, non-performing assets (NPA) ratio improved to 10.1 percent from 11.8 percent as the expansion in gross assets complemented the 4.5 percent drop in NPAs to P11.0 billion from P11.5 billion. Moreover, the NPA coverage ratio strengthened to 69.8 percent from 62.4 percent, given the 6.9 percent buildup in allowance for probable losses on NPAs.

Nonetheless, the industry still needs to further enhance credit standards to improve on their loan and asset quality as both its NPL and NPA ratios remained in double-digit figures since 2003.

Deposit Liabilities

The NSSLAs' deposit liabilities rose by 13.7 percent to P17.8 billion at end-2010 from P15.6 billion last year. As the secondary source of funding for the industry, the share of deposit liabilities to total resources further rose to 17.6 percent from 17.3 percent.

By composition, savings deposits comprised the majority of total deposits at 81.3 percent, although down from 84.3 last year. Time deposits held the balance at 18.7 percent, up from 15.7 percent.

Savings deposits rose by 9.6 percent to P14.5 billion at end-2010 from P13.2 billion at end-2009. By the same token, time deposits increased by 35.6 percent to P3.3 billion from P2.4 billion.

Capitalization

Total capital accounts increased by 12.7 percent to P79.2 billion at end-2010 from P70.3 billion last year. By component, paid-in capital stock made up the majority of the capital base at 88.1 percent (slightly down from 88.3 percent last year). Surplus, surplus reserves and undivided profits contributed the remaining 11.9 percent (up from 11.7 percent).

The industry remained adequately capitalized as the ratio of total capital accounts to total assets went up to 78.5 percent (from last year's 77.7 percent).

"The industry remained adequately capitalized."

Offshore Banking Units

Overview

The size of all offshore banks further contracted as total assets (net of due from head office/branch abroad) reached $523 million as of end-December 2010, declining by $58 million or 10.0 percent from last year's $581 million. The year-end figure, however, is a slight rebound from last semester's $495 million.

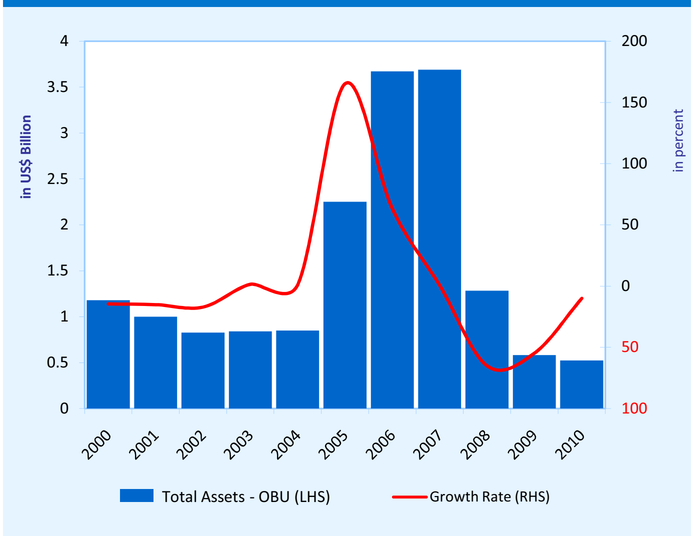
The local operations of the Offshore Banking Units (OBUs), which rely essentially on funds from non-residents due to restrictions by law on deposits and borrowings from residents, were affected by the recent financial crisis in the United States of America (US) and in the Euro area.

The number of players was reduced to four operating OBUs from five as of end-December 2010 with the voluntary closure and non-payment of annual fees with the BSP for 2010 by ABN-AMRO Bank N.V.

The profitability of the industry fell in 2010 as the growth in operating expenses caught up with the improvement in revenue. For the year ended 31 December 2010, the OBU industry posted a net profit of $17 million, 5.2 percent lower than the $18 million net income in 2009. The faster expansion in operating expenses of 55.4 percent ($3 million) to $8 million overshadowed the 8.2 percent ($1 million) growth in operating income to $25 million, dragging the net profit of the industry. (Table 49)

Offshore Banking System

Total Assets



Results of Operations

The industry's net profit slightly declined in 2010 to $17 million from $18 million last year. This resulted from the wider expansion in operating expenses (up by $3 million to $8 million from $5 million last year) than the growth in operating income (up by only $1 million to $25 million from last year's $24 million). Operating expenses grew as salaries, wages, bonuses and allowances and other expenses both reached $4 million from last year's $2 million and $3 million, respectively. The expansion in operating expenses pushed the cost-to-income ratio up to 31.9 percent from 22.6 percent in 2009.

On the revenue side, the growth in net interest income of $12 million from last year's $6 million was partly pulled down by the contraction in non-interest income to $14 million from $17 million. Further breakdown showed that the reduction in non-interest income was brought by the 100 percent erosion of gains on sale/redemption of investments from last year's $11 million, which was partially buffered by the increase in income from commission, fees and other charges to $10 million from last year's $4 million.

Despite the decline in earnings, return on assets (ROA) improved to 3.1 percent from 1.9 percent in 2009. This was realized as average total asset size for 2010 fell to $552 million from last year's $932 million. (Table 50)

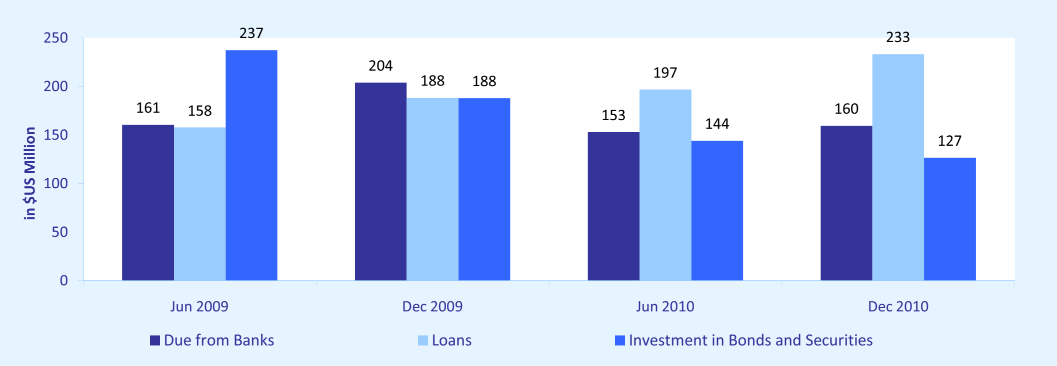
Major Asset Trends

The contraction in total assets in 2010 from last year was attributed mainly to the decline in interbank lending activities and by the considerable amount of foreign investments in bonds and securities that was liquefied to expand lendings particularly to resident borrowers.

With the continuing weak economic conditions of US and Euro zone economies, the industry is slowly shifting its exposure from shaky non-residents towards the more stable residents. For the past four semesters, OBUs are slowly moving their funds away from investments in non-resident bonds and securities to the more stable loans to resident borrowers. As of end-2010, investments in bonds and other securities went down by 32.6 percent ($61 million) to $127 million from $188 million last year. A portion of the proceeds from the disposal of investments was used to expand loan portfolio which grew by 23.9 percent ($45 million) to $233 million from last year's $188 million.

Offshore Banking System

Selected Asset Accounts



Moreover, loans (which account for 44.7 percent of total assets from 32.4 percent last year) overtook investments in bonds and other securities (at 24.3 percent from 32.4 percent) in capturing the lead share in total assets. The second highest asset share was kept by due from banks at $160 million or 30.6 percent of total assets.

The overall exposure of OBUs still favored non-residents at $369 million or 70.5 percent of total assets, down from $426 million or 73.0 percent from last year. Meanwhile, the OBUs' exposure to residents slightly fell to $154 million or 29.5 percent of total assets from $158 million or 27.0 percent last year.

By economic activity, loans to residents were focused towards the Manufacturing sector and Electricity, Gas and Water sector. Year-on-year comparison showed partial decline in the share of loans held by the Manufacturing sector which reached 71.3 percent or $109 million (down from 75.3 percent share or $81.6 million from last year). Meanwhile, the Electricity, Gas and Water sector had the second largest share with 23.0 percent share or $35 million (new entrant for the period). Transportation, Storage and Communications sector moved down to third place with 4.7 percent share or $7 million (down from 21.8 percent share or $24 million last year). The remaining 1.0 percent ($2 million) was lent to other sectors.

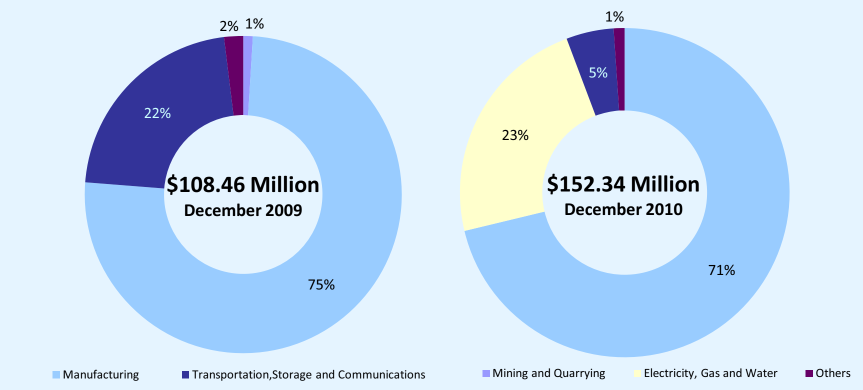
Majority or 94.1 percent of loans to residents had medium-term duration (maturity of more than a year to 5 years) while long-term lendings (maturity of more than 5 years) accounted for 5.9 percent of total loans.

The funding structure of OBUs remained the same from last year. Net due to head office/branches was still the biggest provider of funds at 96.0 percent ($502 million) of total liabilities, up from 88.9 percent share (but down from $516 million) last year. Other liabilities was a distant second with 2.5 percent or $13 million contribution (down from 3.1 percent or $18 million) to total liabilities. Deposits of non-residents other than banks followed with 1.2 percent share ($6 million) from last year's 2.1 percent of total liabilities ($12 million). The last spot was held by due to other banks at 0.3 percent or $2 million, a big contraction from last year's 5.8 percent or $34 million.

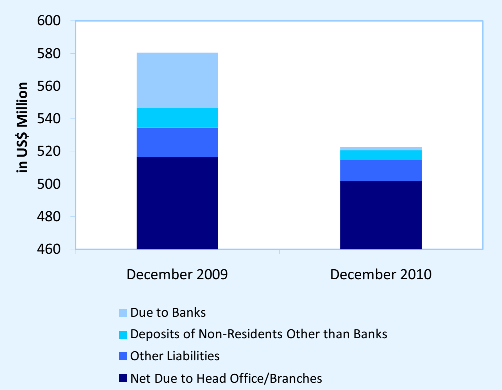
"Loans to residents were focused towards the Manufacturing sector and Electricity, Gas and Water sector"

Offshore Banking System

Loan Portfolio Structure (Residents) By Industry Sector



Funding Mix



Trust Operations

Overview

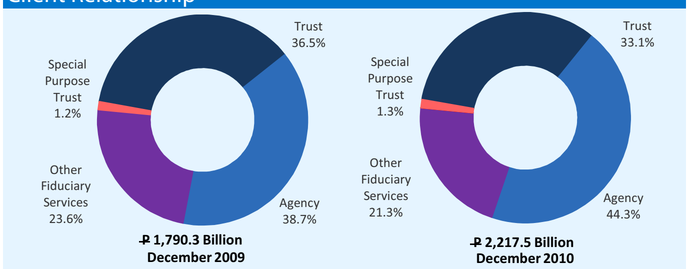
The trust industry performed well in 2010 with strong growths noted in key balance sheet accounts. The industry's total managed funds registered a double-digit growth of 23.9 percent, enabling total resources to reach P2,217.5 billion. Trust operations represented 24.5 percent of the on-balance sheet account of the Philippine financial system, up from 21.8 percent at end-2009. The continued growth was spurred by the strong performance of the Philippine stock market as the relatively peaceful presidential elections coupled with the better-than-expected macroeconomic performance buoyed investor confidence.

Agency accounts' share of the total accountabilities of trust institutions jumped to 44.3 percent from last year's 38.7 percent as other individual agency accounts grew by P174.7 billion to P497.2 billion. Likewise, the growth in other institutional agency accounts helped boost agency accounts with its P112.6 billion increase to P448.4 billion.

While trust accounts held more than thirty percent of trust institutions' total accountabilities, this slipped to 33.1 percent from 36.5 percent last year due to the slower growth registered by the sub accounts of trust vis-à-vis the sub accounts of agency in 2010.

Trust System

Client Relationship



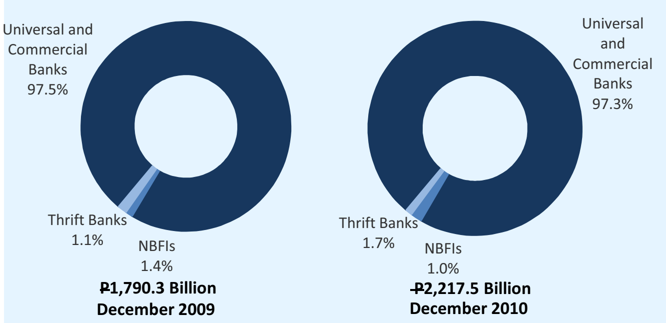
Similarly, other fiduciary services' share of accountabilities fell two notches lower to 21.3 percent from 23.6 percent last year despite the P148.8 billion increase in custodianship to P164.5 billion as against last year's P15.6 billion. This came as the various trust and agency accounts outpaced the growth of other fiduciary services.

Special purpose trust, meanwhile, held only 1.3 percent or P27.8 billion of trust institutions' total accountabilities for the year. This is 30.5 percent higher than last year's P21.3 billion.

By type of institution, universal and commercial banks cornered 97.3 percent of the market or P2,158.0 billion, while thrift banks held 1.7 percent (P37.9 billion) and investment houses accounted for 1.0 percent (P21.5 billion).

Trust System

Market Structure of Assets



Comparing these figures with last year's statistics, the share of thrift banks went up by 0.6 percentage point from 1.1 percent while universal and commercial banks and investment houses fell from 97.5 percent and 1.4 percent, respectively.

Peso-dominated fiduciary accounts accounted for 91.4 percent (P2,026.8 billion) of total trust accountabilities, up by 0.2 percentage point from last year's share of 91.2 percent (P1,632.9 billion). Foreign currency-denominated fiduciary accounts held the remaining balance of 8.6 percent (P190.7 billion), down from 8.8 percent (but up from P157.3 billion) last year.

Operating Network

As of end-year 2010, a total of 44 out of the 47 financial institutions licensed to engage in trust operations reported outstanding trust assets/accountabilities. Twenty seven of which were universal and commercial banks, 12 were thrift banks and five were investment houses.

Major Balance Sheet Trends

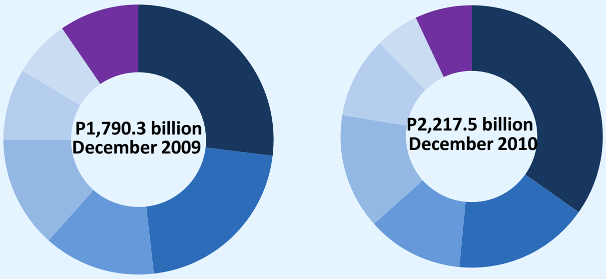
Assets

During the review period, the strong performance of the stock market supported the growth of the industry's total managed funds. Comparing the asset mix in 2010 vis-à-vis 2009, the proportion of total assets accounted for by investment in equities grew to 10.0 percent from 8.5 percent. This reflects the 47.3 percent annual growth to P222.9 billion from P151.3 billion.

Apart from equities, the share of cash and due from banks to total assets also grew to 34.8 percent from 26.9 percent last year on account of the 60.0 percent growth. Cash and due from banks reached P771.5 billion from P482.1 billion.

Trust System

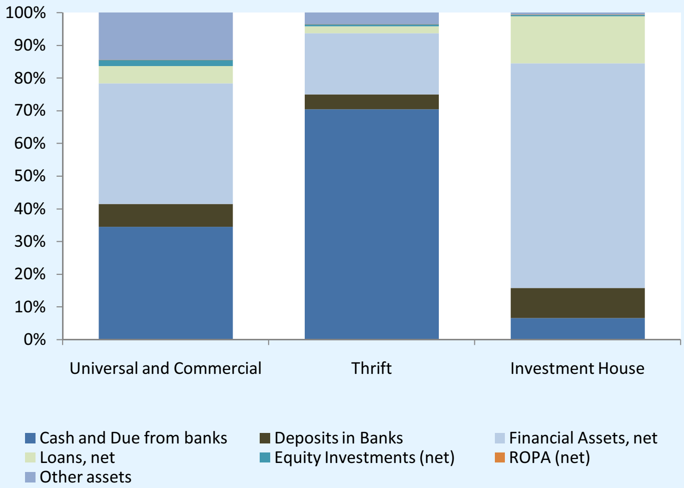
Asset Mix



	December 2009	December 2010
Cash and due from banks	26.9%	34.8%
Invt. In GS	21.3%	16.7%
Invt. in other debt securities	13.4%	11.9%
Other Assets	13.4%	14.2%
Invt. In equity securilties	8.5%	10.0%
Loans	6.9%	5.4%
Deposits in banks	9.6%	7.0%
ROPA	0.0%	0.0%

Asset Mix by Financial Institution

(as of end-December 2010)



Special deposit accounts with the BSP, which formed 99.9 percent of cash and due from banks, grew by P289.4 billion (60.1 percent) to P771.1 billion. This is indicative of the industry's weak appetite to lend out to the public. Hence, the share of loans to total assets contracted to 5.4 percent from 6.9 percent. In terms of levels, this translated to a 3.6 percent decline as loans settled to P119.1 billion from 123.6 billion.

Another source of growth for total assets was other assets whose share to total assets climbed to 14.2 percent from 13.4 percent. This was largely due to the 31.5 percent increase in level to P314.2 billion from P239.0 billion.

Meanwhile, the 10.5 percent year-on-year jump to P264.4 billion from P239.4 billion in investments in other debt securities was not enough to maintain the account's 13.4 percent share of total assets in 2009. Instead, it slid to 11.9 percent as of end-December 2010.

Nevertheless, the increase in these investment channels offset the year-on-year decline posted by deposits in banks (down by P16.9 billion to P155.5 billion), investments in government securities (lower by P12.6 billion to P369.4 billion) and ROPA (down by P0.1 billion to P0.4 billion).

By type of financial institution, investment preferences or asset mix vary. Universal and commercial banks placed 36.8 percent (P794.8 billion) of their managed funds in financial assets other than loans; 34.4 percent (P743.1 billion) in special deposit accounts and 14.5 percent (P312.0 billion) in other assets. The rest were in deposits in banks (7.0 percent or P151.7 billion), loans (5.3 percent or P115.3 billion), equity investments (1.9 percent or P40.3 billion) and ROPA (less than 0.1 percent or P0.3 billion).

For thrift banks, bulk or 70.4 percent (P26.7 billion) of their accountabilities were invested in special deposit accounts, 18.8 percent (P7.1 billion) were in financial assets other than loans and 4.6 percent (P1.7 billion) were in deposits in banks. The rest (6.3 percent or P2.4 billion) were allocated among other assets (3.6 percent or P1.4 billion), equity investments (0.7 percent or P0.3 billion) and ROPA (less than 0.1 percent or less than P0.1 billion).

Unlike universal and commercial banks and thrift banks, investment houses were less inclined to invest their managed funds in special deposit accounts. Bulk of their funds was in financial assets other than loans, more specifically, available for sale equity securities which comprised 68.7 percent or P14.8 billion of their total assets. Other investment venues used were loans, with a 14.4 percent (P3.1 billion) share of total assets; deposits in banks, which accounted for 9.2 percent (P2 billion); and special deposit accounts, which held 6.6 percent (P1.4 billion) of total assets. The remaining 1.2 percent was distributed among other assets (0.7 percent or P0.2 billion), equity investments (0.4 percent or P0.1 billion) and ROPA (0.1 percent or less than P0.1 billion).

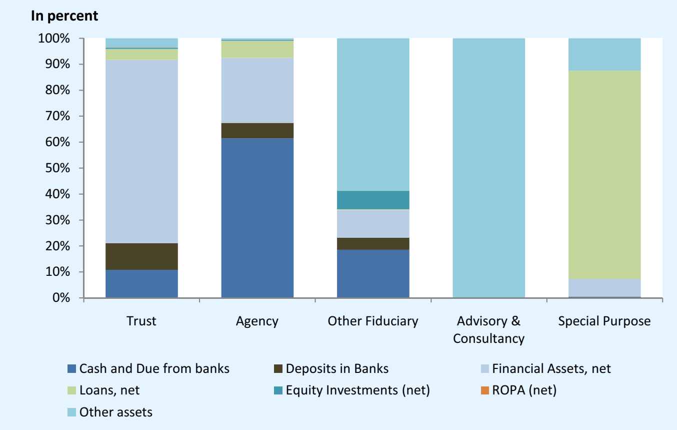
In contrast with advisory and consultancy and special purpose accounts, which naturally lean towards investment in other assets and loans, respectively, other types of managed funds tended to favor investments in financial assets other than loans and special deposit accounts.

In particular, 70.6 percent (P517.9 billion) of trust accounts were lodged in financial assets other than loans, 10.8 percent (P79.3 billion) in special deposit accounts and 10.2 percent (P75.2 billion) in deposits in banks. Loans (4.3 percent or P31.5 billion), equity investments (0.5 percent or P3.4 billion) and ROPA (less than 0.1 percent or P0.2 billion) combined to account for the 8.4 percent balance.

Trust System

Asset Mix by Total Managed Fund

as of end-December 2010



For agency accounts, 61.5 percent (P604.2 billion) were kept in special deposit accounts, 25.1 percent (P246.4 billion) in financial assets other than loans and 6.5 percent (P64.1 billion) in loans. Minimal shares were directed to bank deposits (5.9 percent or P58.1 billion), other assets (0.6 percent or P6.0 billion), equity investments (0.4 percent or P3.5 billion) and ROPA (less than 0.1 percent or P0.1 billion).

Meantime, other fiduciary services were mostly channeled to other assets (58.7 percent or P277.7 billion), special deposit accounts (18.5 percent or P87.6 billion) and financial assets other than loans (10.7 percent or P50.5 billion). Marginal shares of 7.1 percent (P33.8 billion) and 4.7 percent (P22.2 billion) went to equity investments and bank deposits, respectively, while loans and ROPA gave a combined contribution of 0.3 percent (P1.4 billion).

Liquidity wise, the ratios of cash and due from banks to total accountabilities as well as liquid assets to total accountabilities indicate improved liquidity over last year with the former rising to 34.8 percent from 26.9 percent and the latter ratio increasing to 68.8 percent from 67.1 percent from previous year. The only liquidity ratio that has declined was the gross loans to total accountabilities, which slid to 5.5 percent from 7.2 percent last year. This happened due to the 5.5 percent decline in gross loans and the 23.9 percent increase in total accountabilities.

Similarly, asset quality has improved compared with last year as the non-performing loan (NPL) ratio eased to 1.9 percent from 3.2 percent in 2009 and non-performing assets to gross assets got better to 0.1 percent from 0.3 percent last year.

In terms of loss provisioning, despite the narrowing of the NPL coverage ratio to 133.6 percent from 138.1 percent and NPA coverage ratio declining to 114.3 percent from 122.4 percent last year, the trust industry remained amply protected with coverage of more than 100.0 percent.

Accountabilities

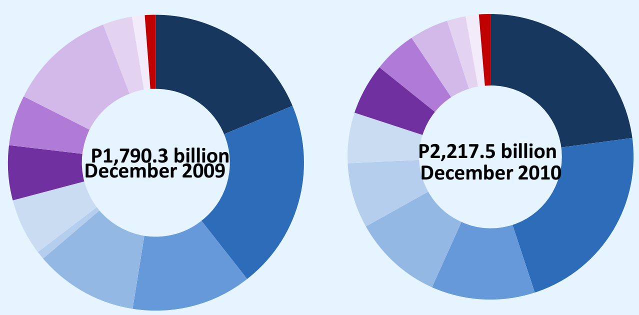
Among the managed funds available in the market, agency accounts posted the highest growth for 2010 (P289.3 billion or 41.7 percent), driven by other individual agency accounts, which grew by P174.7 billion or 60.4 percent of growth in agency accounts. Another big contributor to agency accounts growth was other institutional agency accounts, which went up by P112.6 billion, accounting for 38.9 percent of agency accounts' growth.

While the growth of trust accounts was not as strong as the one posted by agency accounts, it nevertheless posted a double-digit increase amounting to 12.3 percent or P80.3 billion, owing mostly to the P26.3 billion (32.8 percent) hike in personal trust and the P21.6 billion (12.9 percent) growth in employee benefit.

By specific managed fund, the biggest contributors to the growth of total accountabilities were employee benefits (P148.8 billion or 11.8 percent higher than the previous year) and other individual trusts (P119.7 billion or 52.0 percent up from last year). Combined, these two made up more than the P173.8 billion growth in total accountabilities. However, their increase as well as those generated by other managed funds were weighed down by the P114.6 billion (9.3 percent) decline in pre-need and the P10.4 billion (54.1 percent) reduction in other fiduciary services. Special purpose trust also slid lower in 2010, but it was minimal at only P0.2 billion.

Trust System

Funding Mix



	December 2009	December 2010
Other Indiv. Trusts	18.7%	22.9%
Other Inst. Trusts	20.7%	22.1%
Personal Trust	13.1%	11.7%
Employee Benefit	11.3%	10.2%
Custodianship	0.9%	7.4%
Corporate Fiduciary	6.2%	5.7%
UITF	6.0%	5.8%
Pre-need	5.5%	4.9%
Other Fiduciary Services	11.8%	4.4%
Escrow	3.2%	2.1%
Court Trust	1.4%	1.5%
Special Purpose Trust	1.2%	1.3%
Other Trust Accounts	0.0%	0.0%

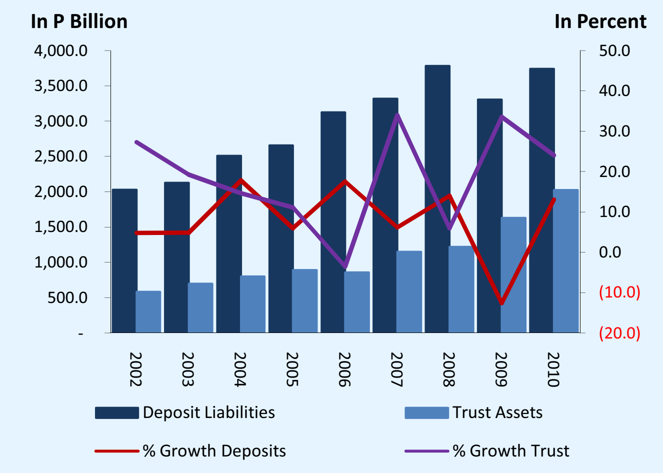
In terms of funding mix, agency accounts continue to dominate managed funds, by cornering the largest share of 44.3 percent (P982.3 billion), up by 5.6 percentage points than last year's share of 38.7 percent (P693.0 billion). This was followed by trust accounts with a share of 33.1 percent (P734.0 billion) and by other fiduciary services with 21.3 percent (P473.3 billion). Special purpose trust only gave a marginal contribution of 1.3 percent (P27.8 billion).

By specific account category, other individual trusts (22.9 percent or P508.4 billion), which came mostly from agency accounts, overtook other institutional trusts (22.1 percent or P489.7 billion) in holding the biggest proportion of total managed funds. Personal trust came in third with 11.7 percent (P260.5 billion).

The rest of the accounts and their corresponding shares to accountabilities were: employee benefit – 10.2 percent (P225.5 billion); custodianship – 7.4 percent (P164.5 billion); corporate fiduciary – 5.7 percent (P125.5 billion); UITF – 5.8 percent (P128.4 billion); pre-need – 4.9 percent (P107.7 billion); other fiduciary services – 4.4 percent (P97.4 billion); escrow –2.1 percent (P47.7 billion); court trust – 1.5 percent (P34.2 billion); special purpose trust – 1.3 percent (P27.8 billion); other trust accounts – less than 0.1 percent (P0.1 billion).

Trust System

Domestic Deposit Liabilities (Net of Trust Deposits) of Banks with Trust Functions vs. Trust Assets



Comparative Growth Trends

Overall, the trust assets held by banks licensed to operate trust departments reached P2,026.8 billion as of end-December 2010, 24.1 percent (P393.8 billion), higher than last year's P1,632.9 billion.

As a percentage of total peso-denominated domestic liabilities, trust assets grew by 2.1 percentage points to 35.1 percent from 33.0 percent last year.

After registering performances in the opposite direction in 2009 (33.6 percent increase in trust assets against the 12.6 percent decline in deposit liabilities), the growth of trust assets tapered down to 24.1 percent while deposit liabilities posted a positive growth of 13.1 percent in 2010. This was on account of the year-on-year 11.7 percent (from only 2.2 percent in 2009) hike in time deposits given the increase in the interest rates on time deposits (all maturities) to an average of 3.0 percent from 2.7 percent in 2009.

"The continued growth was spurred by the strong performance of the Philippine stock market as the relatively peaceful presidential elections coupled with the better-than-expected macroeconomic performance buoyed investor confidence."