

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

## Overview

Non-bank financial institutions (NBFIs) are financial institutions that do not have a full banking license but they facilitate bank-related financial services, i.e., investment, risk pooling, contractual savings and market brokering. Only NBFIs with quasi-banking functions (NBQBs) and those without quasi-banking function but are subsidiaries and affiliates of banks and NBQBs are subject to BSP supervision.

NBQBs are financial institutions authorized by BSP to borrow funds from 20 or more lenders for their own account through issuances, endorsement or assignment with recourse or acceptance of deposit substitutes for purposes of re-lending or purchasing receivables and other obligations.

As of end-December 2013, total resources of NBQBs of P177.3 billion accounted for 39.5 percent of the total assets of the NBFIs supervised by the BSP, total of which represented 4.5 percent (P448.5 billion) of the Philippine Financial System’s total resources (P9,961.6 billion). This is lower compared to last year’s 42.9 percent (P186.7 billion) share which then represented 5.4 percent (P434.7 billion) of the Philippine Financial System’s total resources (P8,050.1 billion). This is due to the decline in most of the asset accounts, particularly loans and investments, which comprise the bulk of the NBQB’s assets.

During the review period, there were 12 operating NBQBs in the country consisting of five investment houses (IHs), six financing companies (FCs) and one other non-bank. The number of NBQBs declined from last semester’s 13 operating NBQBs due to the revocation of quasi-banking license of Unicapital, Inc., an investment house, on 28 November 2013<sup>33</sup>. Of the 12 operating NBQBs, eight are linked to universal and commercial banks (three IHs and five FCs). The number of operating NBQBs remained small as it is only 0.2 percent of the total 6,229 NBFIs supervised/regulated by the BSP. The overall network of NBQBs stood at 75 (12 head offices and 63 branches/other offices).

<sup>33</sup> Circular Letter (CL) 2013-066 dated 20 December 2013.

<sup>34</sup>Cf: Footnote No.2 (Assessment , p.1)

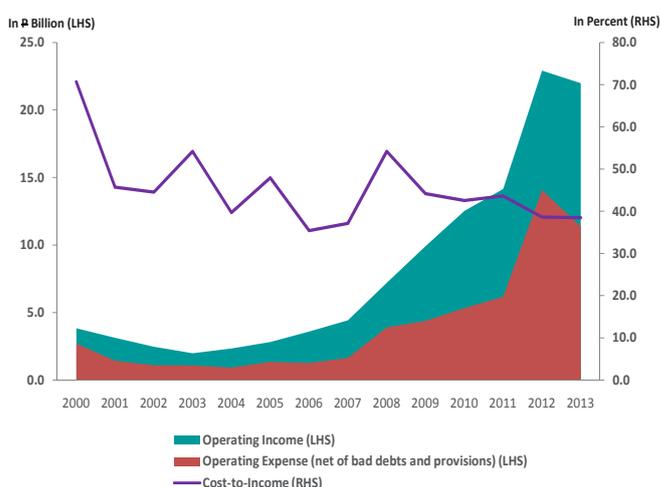
## NBQBs’ net profit doubled in end-December 2013

The NBQB industry posted a net profit of P16.3 billion in end-December 2013. This accounted for 41.1 percent of the total net profit of NBFIs. This is more than twice the profit recorded at end-December 2012 of P7.6 billion. IHs with QB accounted for 80.8 percent of net profit while FCs with QB accounted for 19.2 percent. Operating income slightly declined by 4.1 percent to P22.0 billion from last year’s P22.9 billion due to the 26.3 percent drop in net interest income. Non-interest income also rose by 28.3 percent to P12.0 billion from P9.3 billion last year due to the increases in trading income.

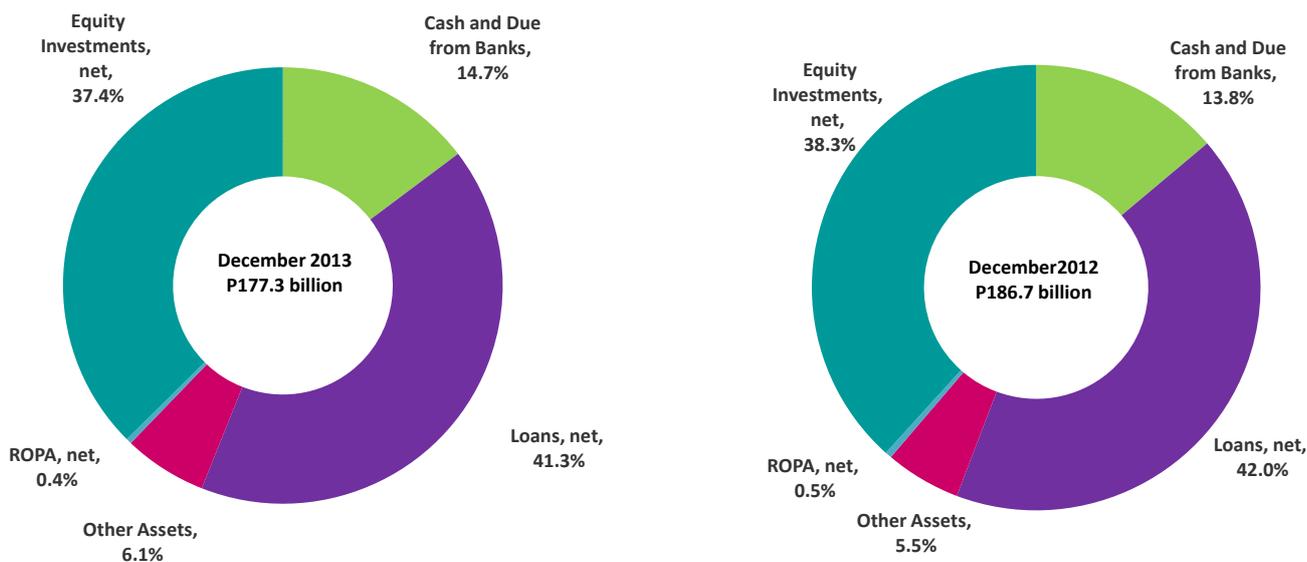
Operating expenses decreased by 19.2 percent to P11.4 billion from P14.1 billion last year driven by the simultaneous decline in the cost of funds<sup>34</sup> (44.2 percent) and other operating expenses (4.3 percent).

Accordingly, cost-to-income ratio slightly improved to 38.5 percent from the 38.6 percent at end-December 2012 (Figure 43). Likewise, NBQBs provided better return on assets (ROA) 8.9 percent, up from 4.3 percent at end-December 2012 and return on equity (ROE) at 39.6 percent, up from 21.2 percent.

Figure 43  
Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs)  
Cost-to-Income Ratio



**Figure 44**  
**Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs)**  
**Asset and Funding Mix**



## Resources declined due to the drop in loans and investments

Total assets of NBQBs stood at P177.3 billion, lower by 5.0 percent from last year's P186.7 billion (Table 43) on account of the 7.3 percent decline in loans and 7.2 percent drop in investments. IHs with QB held a slightly bigger share of the NBQB total assets with a share of 52.7 percent (P93.5 billion), up from last year's 50.6 percent share (but lower at P94.4 billion). Meanwhile, FCs with QB pitched in the remaining 47.3 percent share (P83.8 billion), down from last year's 49.4 percent share (P92.3 billion).

NBQB assets were mainly channeled to loans, net, and investments, net, with a combined share of 78.8 percent of total assets, down from last year's 80.3 percent (Figure 45). Loans, net, garnered 41.3 percent share (P78.4 billion), down from last year's 42.0 percent. Investments, net, on the other hand, occupied a 37.4 percent share (P66.4 billion), down from last year's 38.3 percent share (P71.5 billion). Overall, the NBQBs shifted preference to lending over investments in view of rising domestic interest rates as the yields of government securities rose in response to the Fed tapering news in the latter part of 2013.

### *NBQBs posted improved loan and asset quality*

NBQB loan and asset quality continued to improve in the second half of 2013. Non-performing loans (NPL) ratio of 4.4 percent is an improvement from last year's 5.3 percent, with a 24.1 percent drop in NPLs to P3.3 billion from last year's P4.3 billion. IHs with QB posted better NPL ratio at 0.1 percent, as against FCs with QB NPL ratio of 4.6 percent. Meanwhile, NPL coverage ratio declined to 68.6 percent from last year's 71.9 percent due to the 27.6 percent decrease in LLRs.

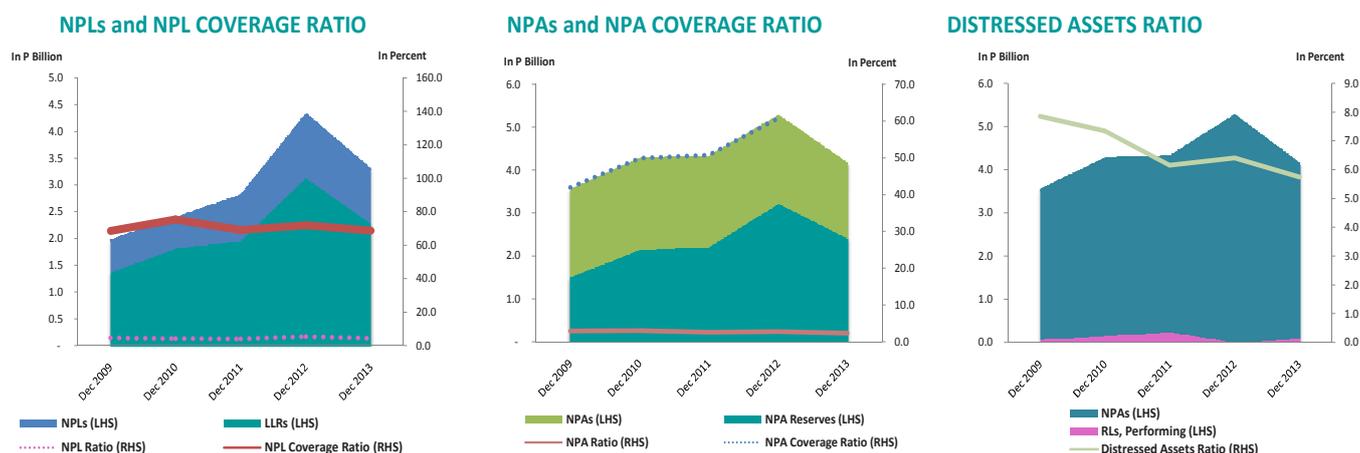
As of end-December 2013, NBQBs' stock of real and other properties acquired (ROPA) was stable at P0.9 billion. As a result, ROPA-to-gross assets ratio was unchanged at 0.5 percent. FCs with QB had a better ROPA-to-gross assets ratio at 0.4 percent compared to the 0.6 percent of IHs with QB. While ROPA reserves were steady at P0.1 billion, the ROPA coverage ratio improved to 14.6 percent from last year's 8.8 percent.

NBQBs' non-performing assets (NPA) ratio of 2.3 percent fell from last year's 2.8 percent. IHs with QB posted better NPA ratio at 0.6 percent, compared to the NPL ratio of FCs with QB at 3.9 percent. NPA coverage ratio narrowed down to 57.5 percent from last year's 60.7 percent due to the 25.5 percent decline in the allowance for NPAs to P2.4 billion from last year's P3.2 billion.

As of the end-December 2013, NBQBs' distressed assets went down to P4.4 billion from P5.3 billion last year. This resulted to a lower distressed assets ratio of



**Figure 45**  
Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs)



5.8 percent from 6.4 percent last year. By subgroup, FCs with QB posted better distressed assets ratio of 5.5 percent compared to IHs with QB of 9.4 percent (Figure 46).

**Ample liquidity, stable funding and adequate capitalization**

The NBQB industry maintained ample liquidity as liquid assets-to-bills payable ratio expanded to 79.7 percent from last year’s 66.2 percent. Gross loans-to-bills payable ratio also rose to 71.0 percent from last year’s 66.4 percent. Most of the FCs and IHs with QB are also linked to universal and commercial banks which can cushion the NBQB industry whenever liquidity problems arise.

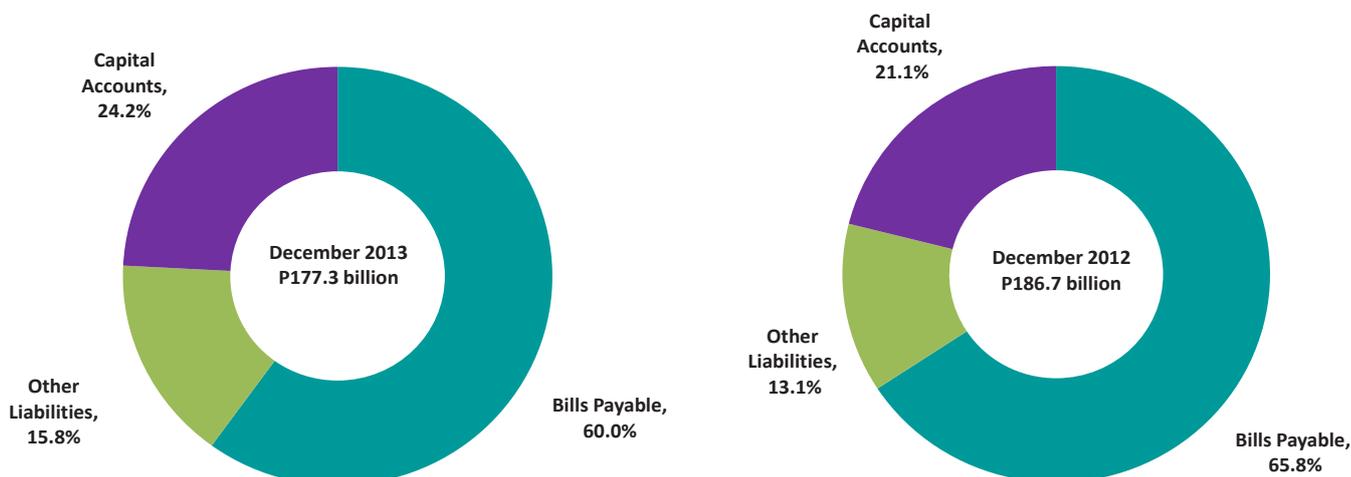
The industry’s total liabilities stood at P134.4 billion, down by 8.8 percent from last year’s P147.3 billion due to the 13.4 percent year-on-year decline in bills payable, which comprised the bulk at 79.1 percent, of total liabilities. Other liabilities which formed the remaining 20.9 percent of total liabilities grew by 14.3 percent (Figure 47).

The industry’s total capital accounts posted a robust growth of 9.0 percent (P3.5 billion) to reach P42.9 billion from last year’s P39.4 billion. This was influenced by the growth in retained earnings and undivided profits by 16.6 percent to P31.6 billion from last year’s P27.1 billion. Meantime, capital stock fell by 7.8 percent to P11.3 billion from last year’s P12.3 billion. This is due to the decline in the number of operating NBQBs to 13 from 14 last year.

By sub-group, IHs with QB’s retained earnings rose by 37.6 percent surpassing the 16.2 percent decline in FCs with QB’s retained earnings. On the other hand, the capital stock of IHs with QB fell by 13.8 percent thereby, outpacing the 4.7 percent hike in capital stock of FCs with QB, respectively.

The industry continued to be well capitalized during the review period. Total capital accounts-to-total assets ratio for NBQBs increased to 24.2 percent from last year’s 21.1 percent.

**Figure 46**  
Non-Bank Financial Institutions with Quasi-Banking (NBQBs)  
**Funding Mix**



# Non-Stock Savings and Loan Associations (NSSLAs)

## Overview

Non-stock savings and loan associations (NSSLAs)<sup>35</sup> are non-stock, non-profit corporations engaged in the business of accumulating members' savings for lending to households by providing long-term financing for home building and/or development and for personal finance.

While there was an expansion in NSSLAs' total assets driven by higher loans, asset quality declined as the non-performing loans (NPL) ratio went up while loan loss provisioning decreased. Moreover, as profitability lessened mainly due to higher cost-to-income (CTI) ratio. Accordingly, both return on assets (ROA) and return on equity (ROE) ratios declined year-on-year.

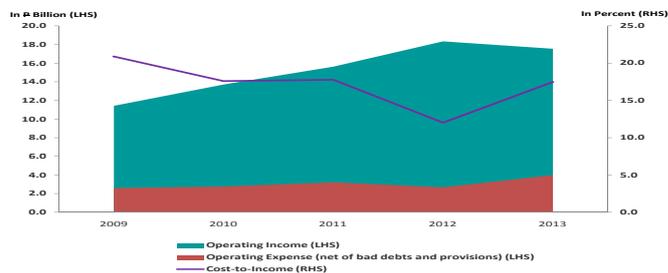
As of end-December 2013, total resources of NSSLAs comprised 29.0 percent (P130.0 billion) of the total resources of the BSP-supervised NBFIs, which constituted 4.5 percent (P448.5 billion) of the Philippine Financial System's total resources (P9,961.6 billion). This is a higher proportion compared to last year's 28.7 percent (P124.9 billion) which then represented 5.4 percent (P434.7 billion) of the Philippine Financial System's total resources (P8,050.1 billion).

As of end-December 2013, there were 71<sup>36</sup> operating NSSLAs accounting for only 1.1 percent of the total 6,229 operating NBFIs under the supervision or regulation of BSP. NSSLAs' total number of offices stood at 198 with 71 head offices and 127 branches/other offices.

## NSSLAs posted lower earnings

The NSSLA industry posted a net profit of P12.8 billion for the year ended December 2013. This accounted for 32.4 percent of the total NBFIs' profit of P39.7 billion. This is lower by 15.1 percent from P15.1 billion earned last year. Operating income dropped by 4.3 percent to P17.5 billion from last year's P18.3 billion due to the 7.5 percent contraction in net interest income. Meanwhile, non-interest income rose by

Figure 47  
Non-Stock Savings and Loan Associations (NSSLAs)  
Cost-to-Income Ratio

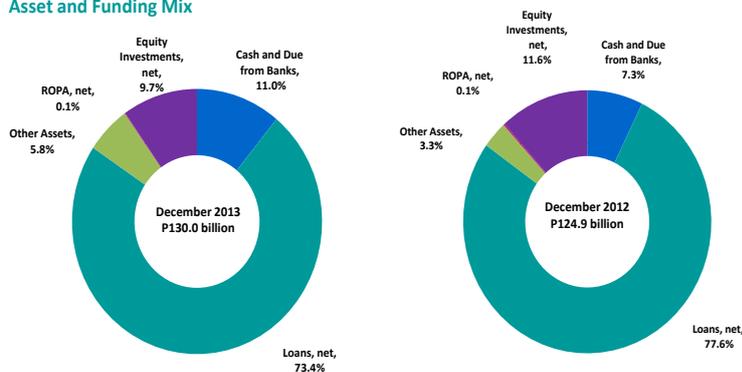


10.3 percent to P3.6 billion from P3.2 billion last year. The industry's members received lower returns as ROA and ROE decreased to 9.8 percent and 12.7 percent from 12.7 percent and 16.3 percent at end-December 2012, respectively. Moreover, the CTI ratio went up to 17.5 percent from last year's 12.0 percent due to the 48.5 percent hike in operating expenses to P4.0 billion from last year's P2.7 billion (Figure 48). In particular, overhead costs which accounted for 42.3 percent of total operating expense grew by 80.2 percent to P1.7 billion from P0.9 billion last year.

## NSSLA industry assets continued to expand

Total assets of NSSLAs stood at P130.0 billion, higher by 4.1 percent from last year's P124.9 billion (Table 47). These were mainly channelled to loans<sup>37</sup>, net with 73.4 percent share (P95.5 billion), lower than last year's 77.6 percent (P96.9 billion) share. Meantime, cash and due from banks, investments, net, real and other properties acquired and other assets held the remaining 26.6 percent (P34.6 billion) of NSSLAs' total assets, up from last year's 22.4 percent (P28.0 billion).

Figure 48  
Non-Stock Savings and Loan Associations (NSSLAs)  
Asset and Funding Mix



<sup>35</sup> NSSLAs are among the non-bank financial institutions being supervised by BSP pursuant to Republic Act No. 8367, otherwise known as the Non-Stock Savings and Loan Association Act of 1997.

<sup>36</sup> Net of one (1) NSSLA (Savings and Loan Association of Power Employees, Inc.) whose license was revoked early this year per Circular Letter (CL)-2-14-008 dated 17 January 2014.

<sup>37</sup> Loan entry for NSSLAs are still based on CSOC reporting format



**NSSLAs' loan and asset quality declined in end-December**

**2013**

NSSLAs' non-performing loans (NPL) ratio of 13.5 percent rose from last year's 9.4 percent due to the 41.0 percent year-on-year growth in NPL levels to P13.9 billion from last year's P9.8 billion. Meanwhile, the NPL coverage ratio narrowed to 50.8 percent from last year's 76.0 percent due to the 5.7 percent decline in LLRs to P7.0 billion from P7.5 billion.

As of end-December 2013, their real and other properties acquired (ROPA) improved to P0.1 billion from P0.2 billion last year. Gross assets grew by 3.6 percent to P137.1 billion. Hence, the ROPA-to-gross assets ratio stayed at 0.1 percent.

NSSLAs' non-performing assets (NPA) ratio rose to 10.2 percent from last year's 7.6 percent. The 39.4 percent build-up in non-performing assets to P14.0 billion was triggered by the 41.0 percent year-on-year growth in NPLs. NPA coverage ratio narrowed to 50.5 percent from last year's 74.6 percent due to the 5.7 percent decrease in NPA reserves to P7.0 billion from P7.5 billion.

As of the end-December 2013, NSSLAs' distressed assets ratio rose to 13.6 percent from last year's 10.0 percent resulting from the increase in distressed assets to P14.0 billion from last year's P10.0 billion (Figure 50).

**NSSLAs enjoyed ample liquidity, stable funding and adequate capitalization**

NSSLAs maintained adequate liquidity to service deposit withdrawals and demand for loans. For the second half of 2013, the ratio of cash and due from

banks-to-deposits stood at 61.1 percent from 39.8 percent at end-December 2012 while the ratio of liquid assets-to-deposits registered at 115.4 percent from 103.3 percent at end-December 2012.

The industry's total liabilities stood at P31.2 billion, up by 14.2 percent (P3.9 billion) from last year's P27.3 billion. Deposit liabilities, which comprised the bulk (74.8 percent) of total liabilities, rose by 2.0 percent to P23.3 billion from last year's P22.9 billion. Bills payable and other liabilities, which formed the remaining 25.2 percent of total liabilities, also grew by 77.1 percent to P7.9 billion from last year's P4.5 billion.

Total capital accounts expanded by 1.3 percent (P11.3 billion) to reach P98.8 billion from last year's P97.5 billion. This was influenced by the growth in capital contributions from members and undistributed earnings. Total capital accounts-to-total assets ratio, which measures the extent of leveraging during the period, determines how much capital is needed to cushion against credit risks of the NSSLAs industry. Said metric is important considering the funding structure of NSSLAs. While it was slightly down to 76.0 percent from the last year's 78.1 percent, the ratio remains high as the industry's funding source primarily comes from its members' capital contribution and undistributed profit from operation.

Figure 50  
Non-Stock Savings and Loan Associations (NSSLAs)  
Funding Mix

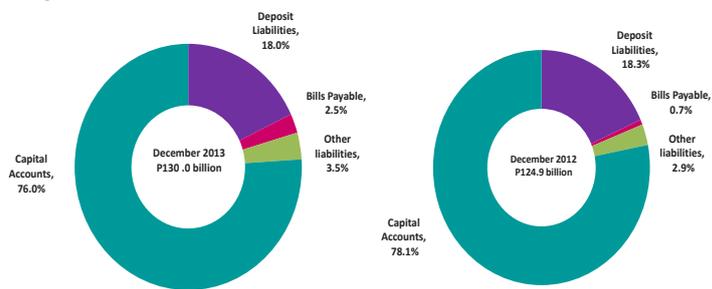


Figure 49  
Non-Stock Savings and Loan Associations (NSSLAs)

