



Bangko Sentral ng Pilipinas

NEWS RELEASE

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2003 REPORT ON THE IMPLEMENTATION OF REPUBLIC ACT NO. 7721
(An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines
and for Other Purposes)

The Bangko Sentral ng Pilipinas (BSP) recently submitted to the Congress and the Senate the tenth Annual Report on the Implementation of Republic Act No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes). One of the highlights of the report is a survey on foreign banks' implementation of the policy objectives embodied in the Act. Under Section 1 of R.A. No. 7721, foreign banks are encouraged to:

- Attract foreign investments and serve as channels for the flow of funds and investments into the economy to promote industrialization
- Provide a wider variety of financial services to Philippine enterprises, households and individuals
- Encourage, promote and maintain a stable, competitive, efficient and dynamic banking and financial system
- Contribute to the alleviation of unemployment in the country
- Strengthen linkages with global financial centers

Overall Financial Performance

Foreign banks (composed of 4 bank branches existing prior to R.A. No. 7721, 10 new foreign bank branches and 7 foreign bank subsidiaries) turned in their best performance in 5 years in terms of profitability, asset quality and capital adequacy. Some of the ways through which foreign banks attained this were: (1) shifting lending focus from the traditional corporate loans to more diversified customer revenue stream; (2) offering a wider range of deposit products and financial services; (3) keying in on local currency financial market products; and (4) introducing various cost reduction/business processes and re-engineering initiatives.

Net income after tax (NIAT) for the year ended 31 December 2003 soared by 27.9 percent to ₱8.0 billion from ₱6.3 billion last year as shown in Table 1. NIAT of new

foreign bank branches jumped to ₱2.6 billion, i.e., 165.7 percent or ₱1.6 billion higher than last year's ₱1.0 billion. Foreign bank subsidiaries, on the other hand, cut their losses by 51.6 percent to ₱0.7 billion from ₱1.4 billion last year. While existing foreign bank branches had the largest share in NIAT at ₱6.0 billion, this was lower by 9.1 percent or ₱0.6 billion than last year's ₱6.6 billion. (Annex A)

The strong performance was traced to better asset quality, which enabled foreign banks to significantly reduce their yearly loss provisioning by ₱1.4 billion or 28.3 percent to ₱3.5 billion from ₱4.9 billion last year. Likewise, net interest income went up by 1.4 percent to ₱18.1 billion.

Total assets peaked at ₱501.1 billion, the highest since 1998. The 4 original foreign bank branches still held the bulk of these assets (65.4 percent vs. 66.5 percent at end-2002), followed by new foreign bank branches (21.2 percent vs. 20.1 at end 2002) and foreign bank subsidiaries which maintained their end-2002 share at 13.4 percent. (Annex B)

Funds were mainly channeled to investments, which grew by ₱23.6 billion or 20.2 percent to ₱140.9 billion from ₱117.3 billion at end-2002. Likewise, loan portfolio (net) rose by 3.3 percent or ₱8.9 billion to ₱280.8 billion from ₱272.0 billion last year. The main beneficiaries of foreign banks' loans continued to be the Financial Intermediation sector (34.7 percent), Community, Social and Personal Services sector (22.0 percent) and the Manufacturing sector (21.5 percent). The 3 industry sectors made up 78.2 percent of loans (gross). (Chart 1)

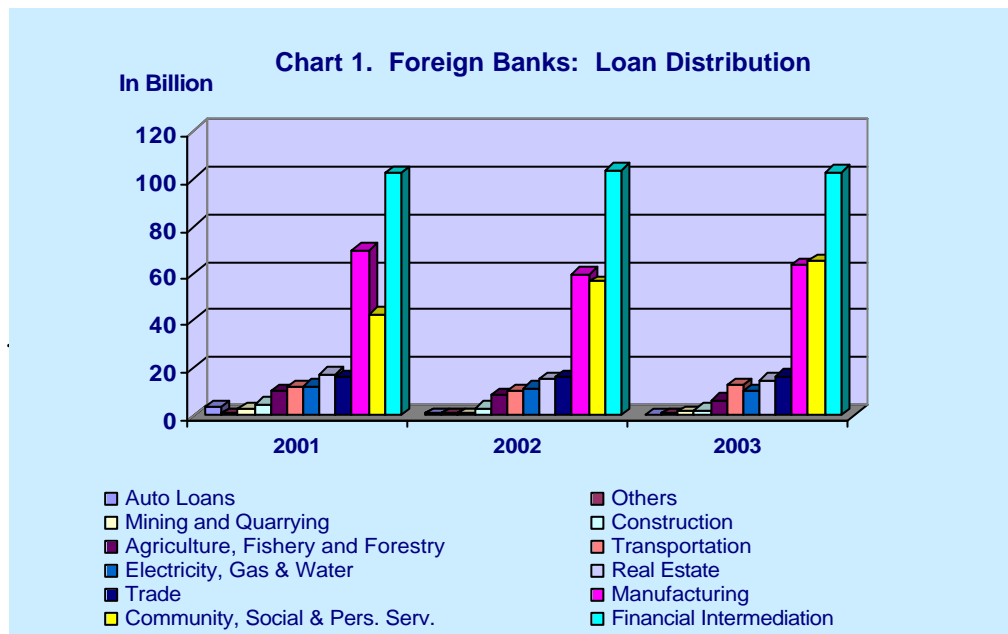


Table 1. Foreign Banks: Performance Indicators (In percent)

	1999	2000	2001	2002 ^{1/}	2003
Growth Rates					
Balance Sheet					
Total Assets	3.5	24.1	5.2	(2.6)	3.0
Loans (gross)	22.7	20.3	7.9	(3.0)	3.4
Allowance for Probable Losses	26	32.6	19.6	(9.4)	5.5
Loans (net)	22.6	19.7	7.2	(2.6)	3.3
Investments	6.6	39.5	13	(4.2)	20.2
Other Assets	(32.2)	36.5	5.9	(17.8)	13.1
Deposits	45.4	32.3	5	(2.9)	(0.7)
Bills Payable	(14.6)	(0.9)	17.3	(23.8)	1.2
Total Capital Accounts	13.6	0.3	21	2.3	3.5
Capital Stock	52.2	9.1	(10.6)	(3.6)	12.5
Income Statement					
Net Operating Income	(86.8)	1272.5	65.8	13.9	20.4
Total Operating Income	8.4	12.3	17.1	5.6	0.5
Net Interest Income	8.3	13.3	10.3	5.1	1.4
Non-Interest Income	8.5	10.6	29.2	6.3	(0.9)
Operating Expense	22.5	(7.2)	9.2	2.9	(6.6)
Bad Debt Expense/Provision	15.6	(47.4)	39.5	6.6	(28.3)
Other Operating Expenses	41.8	(3.0)	3.1	1.9	(0.3)
Extraordinary Credits/(Charges)	(91.2)	68.8	29.1	(38.6)	46.1
Net Income After Tax (NIAT)	(119.1)	801.3	86.7	(2.2)	27.9
Selected Ratios					
Liquidity					
Cash & Due from Banks to					
Deposits	30.6	27.0	22.6	24.7	17.8
Loans (gross) to Deposits	102.9	93.5	96.0	95.9	99.9
Asset Quality					
Non-Performing Loans Ratio	6.0	7.2	7.4	5.1	4.4
NPL Coverage Ratio ^{2/}	76.6	71.3	76.9	92.0	100.7
Non-Performing Assets to Total					
Assets	3.7	4.2	4.6	3.3	3.0
NPA Coverage Ratio ^{3/}	73.9	68.6	72.5	83.7	88.7
Capital Adequacy					
Net Worth to Risk Assets Ratio ^{4/}	14.6	20.0	24.7	22.5	23.8
Capital Adequacy Ratio ^{5/}	-	-	22.6	24.2 ^{6/}	25.3 ^{7/}
Total Capital Accounts to Total					
Assets	15.6	12.6	14.5	15.2	15.3
Profitability					
Return on Assets (ROA)	(0.1)	0.8	1.2	1.3	1.6
Return on Equity (ROE)	(0.8)	5.5	9.2	8.5	10.6

1/ Revised

2/ Ratio of loan loss reserves to NPLs

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

4/ Based on the old framework provided for under Section 22 of the Old General Banking Act

5/ Based on the new framework provided for under BSP Circular No. 280 dated 29 March 2001

6/ Data as of end-December 2002

7/ Data as of end-June 2003

Intensified collection efforts and the selective stance of foreign banks in their lending activities brought down further non-performing loans (NPL) by 11.5 percent or ₱1.7 billion to ₱13.0 billion from ₱14.7 billion last year. Consequently, the NPL ratio improved to 4.4 percent from 5.1 percent last year.

Loan loss reserves (LLR) leveled at ₱13.1 billion, 3.1 percent lower than the previous year's ₱13.5 billion. Nonetheless, the NPL coverage ratio (LLRs to NPLs) still strengthened to 100.7 percent from 92.0 percent in 2002 as the 11.5 percent decline in NPLs outpaced the 3.0 percent drop in LLRs.

The overall asset quality strengthened as non-performing assets (NPAs) further shrunk by 8.4 percent or ₱1.4 billion to ₱15.3 billion from ₱16.7 billion last year. This developed as NPLs went down by ₱1.7 billion, which was partially offset by the ₱0.3 billion rise in real and other properties owned or acquired (ROPOA). Consequently, the NPA ratio improved to 3.0 percent from 3.3 percent as of end-2002. Aside from keeping NPAs within manageable level, foreign banks were able to fortify further their NPA coverage ratio to 88.7 percent, the highest in 5 years.

Deposit liabilities, the main source of funding, slid by ₱2.1 billion or 0.7 percent to ₱297.2 billion from ₱299.3 billion at end-2002. The 10.9 percent (₱4.8 billion) and 8.1 percent (₱2.9 billion) expansion in the deposit liabilities of new foreign bank branches and foreign bank subsidiaries was overshadowed by the 4.4 percent (₱9.7 billion) decline in the deposit liabilities of the 4 existing foreign bank branches.

Despite the decline in deposit liabilities, foreign banks' average volume of deposit liabilities per banking office was maintained at ₱1.6 billion and was more efficient compared with domestic banks' deposit liabilities which averaged ₱0.5 billion per banking office.

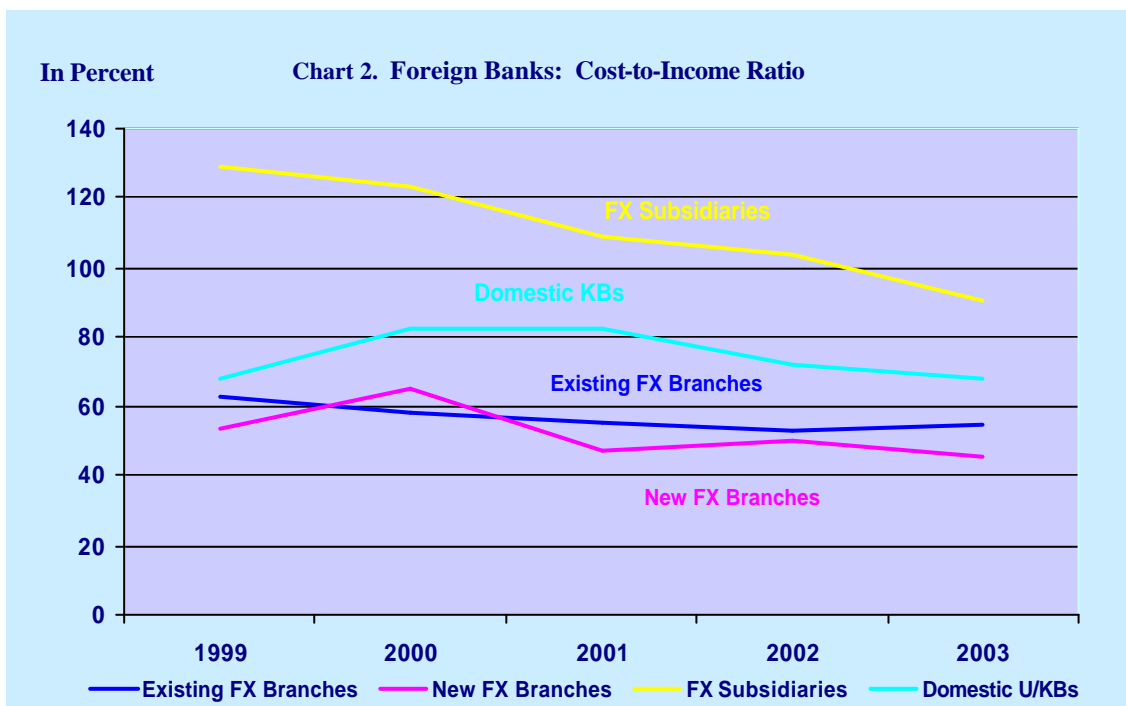
Capital accounts grew by 3.5 percent or ₱2.6 billion to ₱76.7 billion from ₱74.1 billion in 2002. Subsidiaries of foreign banks increased their paid-in capital stock by 12.5 percent or ₱1.9 billion. Meanwhile, the assigned capital and net due to head office of foreign bank branches remained the same as last year at ₱60.0 billion. However, existing foreign bank branches and new foreign bank branches contributed ₱0.6 billion and ₱0.7 billion, respectively, to the surplus and undivided profits account. This narrowed the deficit caused by foreign bank subsidiaries by 50.2 percent to ₱0.6 billion from ₱1.2 billion in 2002.

Foreign banks remained compliant with the prescribed capital requirements (both in terms of the minimum amount and the capital adequacy ratio). At end-June 2003, the overall capital adequacy ratio of foreign banks on a solo basis stood at 25.3 percent (vs. 24.2 percent at end-December 2002). This was way above the minimum benchmark of 10 percent under BSP Circular No. 280.

The strong performance of foreign banks was traced to better asset quality which enabled a cut in the yearly loss provisioning plus higher level of net interest income. Operating income barely grew by 0.5 percent to ₱30.0 billion from ₱29.9 billion the previous year. However, foreign banks managed to cut operating expenses by 6.6 percent or ₱1.5 billion to ₱20.6 billion from ₱22.1 billion last year. There were no bad debts written off in 2003 and the provision for probable losses was clipped by 28.2 percent or ₱1.3 billion to ₱3.5 billion from ₱4.8 billion last year.

Across banking groups, new foreign bank branches were the most efficient for the third consecutive year, with a cost-to-income ratio of 45.5 percent (vs. 50.0 percent in 2002). Existing foreign bank branches followed with 55.1 percent (vs. 52.8 percent in 2002). While the cost-to-income ratio of foreign bank subsidiaries improved to 90.7 percent (vs. 103.7 percent in 2002), they were still the least efficient among foreign banks as well as against domestic universal and commercial banks. On the other hand, foreign bank branches were consistently more efficient compared to domestic universal and commercial banks. (Chart 2)

Foreign banks posted a return on assets (ROA) ratio of 1.6 percent and a return on equity (ROE) of 10.6 percent, the highest since 1996.



Annex A
COMPARATIVE STATEMENT OF INCOME AND EXPENSE
Branches and Subsidiaries of Foreign Banks
For the Years Indicated
(Amounts in Billion Pesos)

Selected Accounts	TOTAL			Existing Foreign Bank Branches			New Foreign Bank Branches			Subsidiaries of Foreign Banks		
	2001	2002 ^{1/}	2003	2001	2002 ^{1/}	2003	2001	2002	2003	2001	2002 ^{1/}	2003
No. of Entities	20	21	21	4	4	4	9	10	10	7	7	7
Operating Income	28.314	29.888	30.028	19.704	21.370	21.026	5.560	5.360	5.746	3.054	3.157	3.256
Net Interest Income	17.022	17.885	18.135	11.862	13.072	12.759	2.866	2.796	3.202	2.294	2.018	2.174
Interest Income	43.239	33.826	31.711	29.341	24.604	22.307	7.317	5.230	5.368	6.582	3.993	4.037
Less: Interest Expense	26.217	15.941	13.577	17.479	11.532	9.548	4.451	2.434	2.166	4.288	1.975	1.863
Other Operating Income	11.296	12.003	11.893	7.842	8.298	8.267	2.694	2.565	2.544	0.760	1.140	1.082
Bank Commissions	1.077	1.014	1.395	0.827	0.750	0.743	0.207	0.193	0.539	0.045	0.071	0.113
Service Charges/Fees	3.564	3.926	4.635	3.201	3.641	4.116	0.120	0.136	0.189	0.245	0.149	0.330
Fees/Commissions-Others	0.692	0.515	0.066	0.255	0.173	0.029	0.409	0.320	0.009	0.029	0.021	0.028
Trading Gain/(Loss)	1.800	2.571	1.644	0.649	0.569	(0.146)	0.913	1.374	1.327	0.236	0.628	0.463
Foreign Exchange Profit/(Loss)	3.112	1.406	1.825	2.153	1.160	1.751	0.873	0.080	(0.049)	0.087	0.166	0.123
Income-Trust Department	0.312	0.459	0.469	0.231	0.371	0.361	0.056	0.085	0.101	0.025	0.003	0.006
Others	0.735	2.112	1.859	0.526	1.634	1.414	0.116	0.376	0.427	0.093	0.102	0.019
Operating Expenses	21.469	22.092	20.641	13.689	13.980	14.250	3.536	4.015	2.760	4.246	4.098	3.632
Bad Debt Expenses	(0.001)	0.007	-	-	0.006	-	(0.032)	-	-	0.033	-	-
Provisions	4.553	4.848	3.479	2.742	2.692	2.655	0.935	1.334	0.147	0.874	0.823	0.678
Other Operating Expenses	16.916	17.237	17.162	10.947	11.282	11.595	2.633	2.681	2.613	3.339	3.274	2.954
Compensation/Fringe Benefits	5.120	5.361	5.843	2.943	3.311	3.679	0.972	0.905	0.952	1.206	1.145	1.212
Depreciation/Amortization	1.118	1.087	1.083	0.623	0.628	0.659	0.098	0.117	0.103	0.397	0.342	0.321
Others	10.678	10.789	10.235	7.381	7.342	7.257	1.563	1.659	1.558	1.736	1.787	1.421
Extraordinary Credits/(Charges)	1.107	0.680	0.994	1.088	0.968	1.080	(0.006)	0.007	0.003	(0.221)	(0.295)	(0.090)
Provision for Income Tax	1.551	2.219	2.375	1.232	1.711	1.814	0.442	0.363	0.359	(0.066)	0.145	0.202
Net Income After Tax	6.401	6.257	8.005	5.871	6.647	6.042	1.576	0.990	2.630	(1.347)	(1.380)	(0.667)
Return on Assets (%)	1.2	1.3	1.6	1.9	2.1	1.9	1.6	1.0	2.6	(1.7)	(2.0)	(1.0)
Return on Equity (%)	9.2	8.5	10.6	20.0	18.7	16.8	6.9	4.0	10.2	(9.6)	(10.3)	(4.9)

1/ Revised

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



Annex B
COMPARATIVE STATEMENT OF CONDITION
Branches and Subsidiaries of Foreign Banks
As of End-Years Indicated
(Amounts in Billion Pesos)

Selected Accounts	TOTAL			Existing Foreign Bank Branches			New Foreign Bank Branches			Subsidiaries of Foreign Banks		
	2001	2002 ^{1/}	2003	2001	2002	2003	2001	2002	2003	2001	2002 ^{1/}	2003
ASSETS	499.784	486.635	501.106	325.662	323.870	327.541	98.747	97.776	106.282	75.375	64.989	67.284
Cash and Due from Banks	69.654	73.944	52.841	39.795	46.999	31.568	22.396	18.999	14.903	7.463	7.945	6.370
Loan Portfolio (net) ^{2/}	279.242	271.978	280.854	181.883	179.540	176.360	54.130	57.719	67.997	43.229	34.719	36.497
Investments (net)	122.392	117.282	140.916	86.059	83.406	103.412	18.718	17.706	19.611	17.615	16.171	17.893
Other Assets	28.495	23.431	26.495	17.926	13.925	16.200	3.502	3.352	3.771	7.066	6.153	6.524
LIABILITIES AND CAPITAL	499.781	486.635	501.106	325.660	323.870	327.541	98.746	97.776	106.282	75.375	64.989	67.284
Liabilities	427.346	412.557	424.421	290.136	288.300	291.324	75.041	72.331	80.183	62.169	51.927	52.914
Deposit Liabilities	308.161	299.338	297.219	223.352	220.330	210.598	41.301	43.594	48.351	43.508	35.414	38.270
Peso Liabilities	150.728	151.231	144.680	115.528	115.895	109.625	9.336	13.117	11.366	25.864	22.219	23.688
Demand and NOW	20.995	29.428	32.257	15.338	21.780	22.846	2.239	3.684	5.146	3.418	3.963	4.264
Savings	106.830	95.139	66.801	78.985	68.468	42.453	7.004	9.315	6.164	20.841	17.356	18.184
Time	22.903	26.665	45.622	21.205	25.647	44.326	0.093	0.118	0.056	1.605	0.900	1.239
Foreign Currency	157.433	148.107	152.539	107.824	104.434	100.973	31.965	30.477	36.985	17.644	13.195	14.581
Bills Payable	30.814	23.435	23.721	13.646	10.540	10.378	2.982	1.647	2.164	14.186	11.247	11.180
Net Due to H.O./Other Offices ^{3/}	46.121	42.642	44.352	18.929	18.365	17.661	27.192	24.277	26.691			
Other Liabilities	42.250	47.142	59.129	34.209	39.066	52.686	3.566	2.812	2.978	4.475	5.265	3.465
Capital Accounts	72.435	74.077	76.686	35.524	35.570	36.217	23.705	25.445	26.099	13.206	13.062	14.370
Capital Stock	15.192	15.298	17.213							15.192	15.298	17.213
Assigned Capital	12.370	12.786	12.786	7.596	7.595	7.595	4.774	5.190	5.190			
Net ue to H.O./Other Offices	45.551	47.178	47.277	27.792	27.792	27.792	17.759	19.386	19.485			
Surplus, SurplusReserves & Undivided Profits	(0.678)	(1.184)	(0.589)	0.136	0.183	0.830	1.172	0.869	1.423	(1.986)	(2.236)	(2.843)
CONTINGENT ACCOUNTS	997.495	880.694	1,265.100	633.700	594.291	974.717	330.844	263.477	261.094	32.951	22.925	29.290

1/ Revised

2/ Inclusive of interbank loan receivables

3/ Balance of the Net Due to H.O./Other Offices which did not qualify as capital

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

