

Industry Updates

Week ended 29 February 2008

KPMG Philippines Bi-monthly Finance News Summary

This publication is a summary of publicly reported information, the accuracy of which has not been verified by KPMG.

Philippine National Bank rated 'outperform' -- Macquarie

Macquarie Research Equities is maintaining its 'outperform' rating and target price of P56.00 for Philippine National Bank (PNB) on reports that the bank will proceed with its planned merger this year with Allied Banking Corp. An 'outperform' call means a stock is expected to do slightly better than the market return.

"We think progress towards an Allied Bank merger will be a catalyst for PNB given its strategic attraction," said Nadine Javellana, an analyst at Macquarie Research. "Even without this event trigger, we continue to see a restructuring story playing out at PNB." PNB reported previously that its net profit in 2007 jumped 50 percent to P1.23 billion from a year earlier.

PNB, the country's fifth-largest bank in terms of assets, said the unaudited figure was the highest since 1997. In 2006, the audited net profit was P820 million. Both PNB and Allied Bank are controlled by local tycoon Lucio Tan. Tan's other listed companies include MacroAsia Corp., Eton Properties Philippines Inc. and Tanduary Holdings Inc.

The possibility of the merger finally taking place this year emerged after the Philippine Supreme Court last December issued a ruling barring the government from seizing assets belonging to Tan.

The Supreme Court declared null and void an order by the Presidential Commission on Good Government (PCGG) for the sequestration of Tan's shares in Allied Bank, Fortune Tobacco and Foremost Farms and Shareholdings Inc. The PCGG is a government body tasked with recovering allegedly ill-gotten wealth of the late President Ferdinand Marcos and his cronies.

If the merger materializes, PNB as the surviving entity will become the country's fourth largest bank by assets.

SOURCE: Inquirer.Net by Rocel Felix / Thomson Financial. 02.19.08

DBP to borrow \$101M from ADB, KfW

State-owned Development Bank of the Philippines (DBP) will borrow \$101 million from the Asian Development Bank and German lender KfW for relending to healthcare and medical tourism projects.

The central bank's policy-making Monetary Board, which is mandated to screen all public sector foreign borrowings, has approved the DBP borrowing. The official development loans will be guaranteed by the national government. They will be denominated in Japanese yen and will

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be lent to the target sectors in pesos.

DBP president Reynaldo David said in an interview that the ADB and KfW would contribute \$50 million each to the sustainable healthcare project. He said ADB would also make a \$1-million technical assistance grant to these sectors. David said the ADB loan would have a term of 25 years, including a six-year grace period. Basic interest cost will be about 2.73 percent, he said.

Adding the cost of foreign cover and sovereign guarantee to bank margins, the funds could be passed on in pesos at an interest rate of 9.23 percent, he said. The technical assistance grant will be used for capacity-building of local government units and microfinance institutions, David said.

The \$50-million KfW component will have a term of 15 years, including a two-year grace period. Including the foreign exchange cover and sovereign guarantee costs, the funds could be relented at about 8.7 percent, David said.

SOURCE: Inquirer.Net by Doris Dumlao. 02.19.08

PS Bank raises P2B from offer

The Philippine Savings Bank raised P2 billion in fresh capital following the completion of its stock rights offer, the thrift unit of the country's biggest lender said yesterday.

In a disclosure, the bank said it will list the more than 38 million in new shares in the stock exchange on Feb. 21. The offer allowed stockholders to buy a share for every 5.27059 at P52.20 each during the Feb. 11-15 offer period. "The successful rights offer represents a vote of confidence from shareholders," PS Bank President Pascual M. Garcia III said.

Proceeds of the offer will be used to strengthen the bank's capital adequacy ratio and financial flexibility. PS Bank's capital adequacy ratio declined to 15.7% in 2007 from 19.4% in 2006, but still way above the regulatory minimum.

SOURCE: BusinessWorld. 02.22.08

Allied Bank issues P3B in debt notes

Allied Banking Corp. launched Monday an offer of P3 billion worth of subordinated debt notes in preparation for a merger this year with Philippine National Bank. Both banks are controlled by the tobacco tycoon Lucio Tan. The merger is expected to result in the country's fourth largest bank in assets. Allied Bank president Reynaldo Maclang said the debt issue would boost the bank's capital adequacy ratio to 16-18 percent from the current 14 percent.

The yield on the 10-year tier-2 notes is expected to range from 6.875 to 7.375 percent a year, said Manuel Salak III, general manager of ING Philippines, which is arranging the issue with BDO Investment Corp.

The notes are due in 2018. Allied Bank has the right to call or redeem them by 2013.

"The logic here is that PNB [Philippine National Bank] has also done capital-raising exercises and Allied bank is also poised to do capital-raising exercises. Preparatory to the merger, you already have good banks to merge," Salak said.

SOURCE: Inquirer.net by Doris Dumlao. 02.19.08

HSBC to hire more workers in the country

HSBC Holdings Plc, Europe's largest bank, plans to hire 20 percent more workers in the Philippines as the nation's fastest economic growth in more than three decades fuels demand for financial services. HSBC will hire about 400 people in the country this year, taking its total workforce in the Philippines to 2,400, Mark Watkinson, chief executive officer of HSBC Philippines, said Tuesday in an interview. The London-based bank will increase the number of its branches in the country to 30 from 24, he said.

HSBC and competitors such as Citigroup Inc. and UBS AG are adding workers in Asia to take advantage of the region's economic expansion, even as they cut jobs globally following credit losses tied to mortgage securities.

Asian economic growth will reach 8.6 percent this year compared with a 1.5-percent expansion in the US, the IMF forecast last month. “We’re bullish on the Philippines,” Watkinson said in Manila. “We’re expanding across all our business segments: corporate banking, retail, treasury.”

The Philippine economy grew 7.3 percent last year, the fastest annual expansion in 31 years, as the one in 10 Filipinos working overseas sent more money home, buoying consumer spending.

HSBC plans to hire 500 workers in Hong Kong to meet rising demand for banking and wealth management services, the South China Morning Post reported on February 15. Citigroup, the largest US bank, said February 18 it plans to hire “hundreds” of employees in Japan this year.

HSBC is the second-largest foreign bank in the Philippines with total assets of P109.49 billion (\$2.7 billion) as of September 30 last year, according to central bank data. Citigroup Inc. is the biggest.

SOURCE: BusinessMirror by Bloomberg. 02.20.08

Pag-IBIG Fund in online tie-up with BPI

State-run Home Development Mutual Fund, or Pag-IBIG Fund, announced it had tied up with Bank of the Philippine Islands (BPI) on an online platform for payment of loans and contributions of fund members. Fund president Romero Quimbo said the new platform would make it easier for Pag-IBIG, the government-run housing provident fund, to process about P4 billion in monthly cash flows from housing loan payments or members’ contributions.

Quimbo said physical traffic was becoming a key challenge for Pag-IBIG, which has 45 offices handling seven million members nationwide. “We’ll be happy if 25 percent of our cash flows can be converted into online transactions,” he said.

The tie-up with BPI will complement an existing online platform with another commercial bank, Union Bank of the Philippines, he said. Pag-IBIG has allotted P30 billion for new low-cost housing loans this year.

In 2007, it allocated P21 billion for housing loans but ended up lending P24 billion. These were retail loans averaging P475,000 per borrower.

SOURCE: Inquirer.Net. 02.20.08

Producers Bank gets P1.4-B credit line

Producers Rural Banking Corp., the biggest rural bank in Luzon in terms of branch network, has obtained a P1.4-billion credit line from various government financial institutions and private lenders for relending to the countryside. Producers Bank, which is based in Ortigas Center, serves small and medium enterprises and is considered one of the pioneering banks in microfinance or lending to the entrepreneurial poor.

In a recent report, the bank said the biggest credit line among GFIs came from the Land Bank of the Philippines, which granted a P550-million credit facility on top of investments in its preferred stocks. The rural bank also got the approval from the Bangko Sentral ng Pilipinas (the Philippine central bank) late last year for a P453.56 million rediscounting line, representing 150 percent of its net worth.

Other institutions that granted credit lines were People’s Credit and Finance Corp. (P100 million), Development Bank of the Philippines (P30 million), Philippine Business for Social Progress (P35 million), Rizal Commercial Banking Corp. (P140 million); National Livelihood Support Fund (P50 million) and Small Business Corp. (P20 million).

Over the last 12 years, Producers Bank has expanded its branch network to 44 covering Benguet, Pangasinan, La Union, Cagayan, Nueva Ecija, Aurora, Nueva Vizcaya, Bulacan, Pampanga, Zambales, Camarines Sur, Albay.

SOURCE: Inquirer.Net by Doris Dumlao. 02.24.08

Fil-Estate cleans its house of bad habits

One of the country’s leading property developers went through a “house cleaning” during the last few years. Fil-Estate Group of Companies—an industry leader in the past two decades—used to be saddled with almost

insurmountable predicament, from financial wretchedness to image and credibility problems.

In an interview, Fil-Estate chairman Robert John L. Sobrepeña declared that his once-beleaguered property firm is now debt-free. "It's over. Fil-Estate has finally risen from the ashes of the 1997 crash," he said. "We have paid... all of our debts and resolved all financial problems that have confronted us during the past years. There is now better way for us to move than before, and we are out to regain the public's trust once more," Sobrepeña added.

At the turn of the millennium, Fil-Estate was among the many companies hard-hit by the Asian financial crisis. Several housing projects in Metro Manila were halted. A number of its housing and condominium units were left unfinished, while the Transfer Certificate of Titles remained undelivered to buyers who have fully paid for their properties. "We are out to regain our [No.1] position in the industry," Sobrepeña said.

In the pipeline are copartner deals with the top five developers and builders that include Ayala Land, Megaworld Properties, Sta. Lucia Development Corp. and foreign developers he declined to name prior to a final deal.

Sobrepeña said that in the mid-1990s, his company amassed over 3,000 hectares of land. The landbank now forms part of a plan to venture into massive leisure and tourism-oriented developments that include retirement villages. Land acquired in Nasugbu, Batangas and in other parts of the country are part of the plan. Sobrepeña said the landbanking program is now paying off after nearly ten years. This is exactly why top developers are now codeveloping with Fil-Estate, he added.

Fil-Estate and Ayala will be developing a Cyber and commercial complex in Baguio's Camp John Hay, a development that will also cater to companies in business-process outsourcing. The formal signing will take place within this first quarter of the year, he said. Apart from codevelopment, Fil-Estate is instituting a predevelopment concept as opposed to the trend of pre-selling residential condominium projects.

"We will never ever go into preselling schemes in any of our current and future projects. We have learned so much out of the experience. Fil-Estate will not sell any property unless its 100-percent complete," Sobrepeña said. "The development of Manila Southwoods Peak project is seen by us as a project that would herald our company's resurgence as we attempt to reestablish our place in the industry," he added. "This represents a complete paradigm shift in the way we do business. The new Fil-Estate is completely focused on development that's in tune with the market but gives an absolute guarantee on delivery," he said.

Unfinished projects, like the Cathedral Townhomes at the back of St. Luke's Medical Center, the Capitol Towers beside Quezon City Hall and 8 Sto. Domingo are now back on track and Fil-Estate has started to deliver units and the titles to respective buyers and owners.

Sobrepeña said Fil-Estate should be back on track within the next 12 months. "This time, we'll be building homes first before we even think of selling it," he added.

SOURCE: BusinessMirror by Roger M. Garcia. 02.25.08

Pag-IBIG selling P20-b bad assets

Home Development Mutual Fund, or Pag-IBIG Fund, plans to sale P20 billion worth of bad assets this year, company president Miro Quimbo said. Pag-IBIG Fund has appointed Ernst and Young as financial adviser for the sale of the bad assets. Pag-IBIG Fund has P20 billion of non-performing assets consisting of bad loans and foreclosed properties, accounting for about 10 percent of total assets.

Quimbo said the Fund had been selling some of its foreclosed properties in the last three years, unloading as much as P2.8 billion last year. The sale involved properties worth between P200,000 and P1.5 million each. Buyers were given discounts of as much as 20 percent.

The disposal of bad assets this year might involve joint venture arrangements and not necessarily a straight out sale, Quimbo said. Some banks that disposed of their bad assets in the past few years had to take haircuts of around 80 percent, which Quimbo ruled out.

Ernst and Young is conducting a due diligence study on the bad assets and is expected to come up with a

framework shortly as the fund hopes to get rid of the bad assets by November to bring down its bottom line. "It's very expensive to foreclose and hold on to these bad assets," Quimbo said. Holding on to bad assets at costs around P500 million or 2.5 percent of their book value.

The fund released P56.65 billion in benefits to 1.8 million members last year, up 19 percent from P47.57 billion in 2006. About 47 percent of the total benefits, or P26.5 billion, represents short-term loans and 46 percent, or P26.12 billion, home financing. Provident claims and death aid benefits amounted for P4.03 billion.

The fund said the P26.12 billion released under the shelter financing program was 40 percent higher than P16.1 billion in 2006 and the highest in the organization's history. Of the total, P22.59 billion was used to finance acquisition and construction of 46,041 residential units under end-user home financing program.

Quimbo attributed the increase in shelter financing to lower interest rates and improvements in loan processing and after-loan servicing. He said receptive and sustained regulatory reforms in the shelter industry also provided a vital push.

Assets expanded by 6 percent to P202.63 billion last year from 2006 levels, with housing-related gross assets accounting for P128.44 billion. Of the total assets, P120.61 billion represent retail loans.

SOURCE: Manila Standard Today by Eileen A. Mencias. 02.25.08

Banco de Oro Unibank plans up to P15-B Tier II debt

Banco de Oro Unibank, Inc (BDO), the country's second-biggest bank, yesterday said it planned to issue up to P15 billion (\$369 million) in unsecured subordinated debt as lower Tier II capital within a year. The issue would be done in tranches, with the first tranche of P5 billion meant to refinance an existing \$200-million Tier II issue callable in July, the bank said in a statement.

BDO, a unit of holding firm SM Investment Corp. owned by one of the country's richest men, Henry Sy, said it had mandated HSBC, ING Bank and Standard Chartered Bank to arrange the new issue. It did not give the date for the issue of the first tranche. "This will allow further expansion of BDO's consumer loan portfolio, and boost its capital adequacy ratio, which stood at 15.3% as of the fourth quarter," the bank said.

In November, the bank issued P10 billion in Tier II capital in an offer that was more than three times oversubscribed. That issue was increased from an initial offer of at least P5 billion, with the notes carrying an interest rate of 7% for the first five years.

BDO also said its board of directors approved the consolidation of its wholly owned subsidiary Equitable Savings Bank with the parent bank to realize cost savings, partly from a unified bank branding and advertising. The bank said it had net income of P6.5 billion in 2007, up nearly 2% from P6.4 billion in 2006, but lower than its income guidance of P7 billion. BDO said this was partly due to non-recurring expenses related to its integration after it took over Equitable PCI Bank last year to become the country's second-largest lender from fourth rank.

"The bank's performance can be attributed to the beneficial impact of the merger, broad-based improvements in key businessline and a rebalancing in asset and liability mix even with ongoing integration efforts and a challenging business environment," it said in a disclosure to the Philippine Stock Exchange. The bank also said its net interest income climbed 11% to P21.4 billion in 2007 partly due to brisk demand for higher-margin consumer loans. Non-interest income fell 4% to P16.9 billion due to lower treasury and other income given greater market volatility.

BDO noted that its operating costs expanded by 12% to P25.5 billion because of the merger and extraordinary expenses incurred from a tax abatement program of the Bureau of Internal Revenue. BDO also said that its board had approved a P0.85 cash dividend payable on April 8, 2008 to shareholders on record as of March 11, 2008.

The bank has total assets of P617.3 billion and total capital funds of P60.4 billion. It has a branch network of 665 and 1,200 automated teller machines nationwide.

SOURCE: BusinessWorld by Reuters / CSSV. 02.27.08

Feedback

Please contact Chiqui Farnacio (+632 885 7000 ext: 229 or cfarnacio@kpmg.com.ph) or Pol De Peralta (+632 885 7000 ext: 369 or adeperalta@kpmg.com.ph) to discuss your views/suggestions.

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