

Industry Updates

Week ended 28 March 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.

RBS to expand through kiosk type branches

Inching its way closer to potential clientele, Rural Bank of Subangdaku (RBS) is set to implement an extensive expansion program by putting up kiosk type branches in areas with heavy consumer traffic such as in malls and wet markets.

In an interview with RBS president Paz Radaza, she said that after the company established its seven stand alone branches nationwide, the bank is now expanding through small-pocket branches to provide easy accessibility to depositors and clients who need financial services like loans. About three to four more pocket-branches will be opened by RBS within this year. These will be located in far-flung towns, tiangge or wet markets.

According to Radaza, the rural banking industry competition is tougher now, thus, providing accessibility and wide visibility is very important for a bank to survive the competition. The kiosk type branches will not however accept deposits of financial disbursement, but it will largely service loan applications, and processing of other bank's services.

The rural bank, which has now over P1 billion total resources, has presence in Metro Manila, Dumaguete, General Santos City, and three branches in Metro Cebu.

Radaza said more than establishing a stand-alone branch, which requires higher investment, the trend now is expanding through smaller-pocket branches especially for rural banks. She said the demand for financial support services via loans from the micro-industry players, like those market vendors, is very strong. It is important therefore, to provide presence especially in far-flung towns, and heavy-traffic commercial areas, like the wet market, and shopping malls.

Although the bigger banking institutions, like the universal and commercial banks are also doing the same, establishing these pocket-type branches, she said rural banks are not competing with the bigger banks at all. "Our market is the micro entrepreneurs and daily earners. Mostly mobile retail vendors, fishermen, farmers," she said.

Radaza, who is also the president of the Rural Bankers Association of the Philippines (RBAP), said the way now rural banks are going to survive amid heavy competition is to reach out to the clients, and going after where they are. Thus, more kiosk type banking branches are expected to open in the next few years.

In the far-flung towns, she said aside from the farmers, and fisher folk, she said increasing number families with members working abroad is the growing market for rural bankers.

FINANCIAL SERVICES



In the news

Rural Bank of Subangdaku

Kim Eng Holdings Ltd -
Mitsubishi UFJ Securities Co.
Ltd.

BancNet

Bank of the Philippine Islands
(BPI)

Development Bank of the
Philippines

iRemit, Inc.

ATR-Kim Eng Equity Opportunity
Fund, Inc.

Banco de Oro Unibank Inc. (BDO)

Land Bank of the Philippines

However, improved security system in the far-flung branches is now being implemented by the rural bankers, not only RBS, in order to avoid robbery incidents.

SOURCE: Philippine Star by Ehda M. Dagooc. 03.17.08

Kim Eng, Mitsubishi forge alliance

Kim Eng Holdings Ltd., a major shareholder of publicly traded ATR KimEng Financial Corp., has forged a strategic alliance with Japan's Mitsubishi UFJ Securities Co. Ltd. Based on the deal, Kim Eng and Mitsubishi UFJ will join forces in equity brokerage, asset management and other businesses. Kim Eng is listed on the Singapore Stock Exchange, while Mitsubishi UFJ is a unit of Mitsubishi UFJ Financial Group, Japan's largest bank.

The partnership will leverage on Mitsubishi UFJ's extensive distribution network in Japan to raise funds for management and Kim Eng's expertise in research, brokerage and investments throughout Asia.

With the completion of the agreement, and to further its commitment to the partnership, Mitsubishi UFJ will acquire an additional 61,558,194 Kim Eng shares through a tender offer to increase its ownership in Kim Eng. The offer price is \$2.70 per share. As of February 21, 2008, Mitsubishi UFJ owned 23,792,000 shares in Kim Eng. Mitsubishi UFJ will own a total of 85,350,194 shares, or 14.63 percent of Kim Eng's outstanding shares, when the offer is completed.

Kim Eng and Mitsubishi UFJ last year signed a memorandum of understanding for the partnership. Both parties had hoped to offer clients in Japan and South East Asia a wider range of investment possibilities across Asia.

ATR KimEng is a diversified financial services company engaged in the capital markets, insurance and real estate. Manuel Tordesillas, president of ATR Financial said the strategic alliance between Kim Eng and Mitsubishi UFJ will further strengthen their visibility and access to business in Japan.

SOURCE: BusinessMirror by Honey Madrilejos-Reyes. 03.18.08

BancNet undertakes ATM expansion

BancNet, one of the country's automated teller machine (ATM) service providers, is embarking on an ambitious three-year expansion program designed to enhance its service to provide further ease and comfort to its clientele. According to BancNet Chairman Angelito M. Villanueva, the three-year program includes tie-ups with international financial institutions and the Department of Tourism, which allows domestic and foreigner tourists to access their accounts while enjoying their vacation. However, Villanueva was mum on the amount of capital outlay BancNet is shelling out for the expansion,

Villanueva disclosed initial discussions have been held with Visa International and Chinaway, giving Chinese tourists in the country the comfort of tapping or using BancNet ATMs for their financial requirements and/or transactions. "The three-year program will include full linkages to the international gateways," said Villanueva, also the executive vice president of the Metropolitan Bank and Trust Co. BancNet, at present, has 5.7 million ATM cardholders arising from its 39 member banks and subscribers.

The expansion program, likewise, covers outsourcing initiatives, maximization of present channels, and bringing eCommerce to the countryside, cashing-in on the network's technological savvy. "Our investments in technology enhancements are enormous," Villanueva pointed out. On the outsourcing segment, Villanueva explained this is the way to go now. "Banks are moving towards outsourcing their ATM operations, thus allowing them to concentrate on their core businesses," he rationalized.

This particular component of the expansion program revolves around end-to-end technology application, propriety, cash-loading facilities, and new or innovative ATM locations.

Villanueva said the ATM service provider has to embark on this ambitious program to catch-up with developments and new technologies as e-Banking has evolved into higher plains. In line with this, BancNet-bank members have started embracing the point of sales (POS) technology as well as internet, mobile banking, multi-channel payment gateways, e-channels with government, and an internet-based fund transfers, exclusively offered to BancNet-member banks.

On the pipeline is for BancNet to be used as tax payment gateway, revealed Villanueva.

Complementary to this, Villanueva said BancNet is linking-up with rural bank and cooperative, either direct or through its Nationlink, an affiliate switch network provider. "We are also looking to reach out to microlenders and microentrepreneurs," he said, stressing that the expansion program is a comprehensive package to as well provide service to the rural areas where its member-banks are operating.

To date, BancNet has reported 529,378 daily average switched transactions with a record 909,508 switched transactions, described to be the highest single day switched transaction in history. For the whole of 2007, BancNet recorded a total of

153.3 million transactions.

SOURCE: Manila Bulletin by Fil C. Sionil. 03.18.08

Bank of PI to hike capital to P49 B

Bank of the Philippine Islands (BPI) is increasing by close to 70 percent its authorized capital stock (ACS) from the present level of P29 billion to P49 billion aimed to maintain its standing as the country's second largest lender. In a disclosure to the Philippine Stock Exchange (PSE), BPI management said the hike in the common stock plus a 20 percent declaration in stock dividend will be put forward for approval in the bank's forthcoming shareholders' meeting next month.

The BPI management team is headed by Aurelio Montinola III, President and Chief Executive Officer. Its major stockholder is the Ayala Group. BPI said "at least 25 percent" the increases in ACS will be "fully subscribed and fully paid."

But, market specialist Astro del Castillo believed the BPI is undertaking the increase to inject additional financial boost to support its expansion program. "BPI is leaving no stones unturned to maintain its foothold as one of the top lender in the country," Del Castillo said.

SOURCE: Manila Bulletin by Fil C. Sionil. 03.20.08

DBP expands lending portfolio

The Development Bank of the Philippines (DBP) is expanding its development lending portfolio to P88.6 billion, or 93 percent of its projected P95.3 billion total loan portfolio for 2008, announced President and CEO Reynaldo G. David. This is a considerable increase from the preceding year's P72 billion, or 88 percent of its total P82 billion portfolio.

DBP's top priority, the infrastructure and logistics sector, which the bank supports via its flagship initiative, the Sustainable Logistics Development Program (SLDP), stands to benefit most from the move. "We intend to attain a 90:10 ratio of development and commercial loans this year by focusing even further on the developmental lending side," he explained. Commercial loans, which amounted to P9.58 billion in 2007, is projected to go down to some P6.7 billion this 2008. "We are confident we can improve on our showing last year and continue to be an efficient partner of the national government in spurring progress in the countryside."

Of the P2.6-billion SLDP projects in the pipeline for this year, two are under the Roll-On, Roll-Off Terminal System (RRTS) worth P154 million; two are in Grains and Cold Chain facilities worth P1.3 Billion and five are in regular shipping worth P1.2 billion.

DBP is providing critical support for the state's infrastructure program based on the super region framework. The bank will also re-focus its microfinance and SME thrusts, prioritizing 33 unserved areas in Mindanao through the One Town, One Product Program of the Department of Trade and Industry.

Aside from the SLDP, the bank has three other priorities: environmental projects – water, solid waste management, pollution control and power; social services – health care, education and community development; and micro plus Small and Medium Enterprises – loans and technical assistance.

DBP has P45.73 billion in available funds, the bulk, or P21.3 billion, are for SMEs; P9.22 billion, for other industrial projects; P7.64 billion for environment; P6.33 billion for infrastructure and logistics and p1.24 billion for social services.

SOURCE: Manila Bulletin by Emmie V. Abadilla. 03.21.08

iRemit transfers \$762.3M in 2007

iRemit Inc., the country's biggest nonbank remittance company, said its transfer volume for 2007 grew 37.2 percent to \$762.3 million from \$555.6 million a year earlier. Its year-end results outpaced the 13.2-percent growth rate for the industry with inward remittances of \$14.4 billion in 2007 compared with the \$12.8 billion in 2006. President and chief operating officer Harris Jacildo said the continuous surge in growth of the remittance inflows was driven by their efforts in intensifying strategic marketing alliances and initiatives in countries with high number of Filipinos.

"Recently, we have added two tie-ups in Brunei and we are preparing for the opening of our new branch in New Zealand. Our pay-out centers have reached more than 2,800, making these more accessible for the beneficiaries to pick up their remittances nationwide," he said. This year the company remains upbeat on its growth prospects.

In January Jacildo said iRemit's remittance volume went up 55 percent compared with the same period last year. "This is considerably higher than the 15-percent year-on-year industry growth attributed to the \$1.3-billion remittances sent home by OFWs in January 2008 as recently reported by the Bangko Sentral," he said. The company's performance in January resulted in a 5.9-percent market share. Bulk of the growth came from the Middle East and Asia-Pacific.

iRemit, whose shares are traded on the Philippine Stock Exchange, presently operates in 25 countries. It has established

offices in Australia, Austria, Canada, Hong Kong, New Zealand, Singapore and the United Kingdom. Through tie-ups, the company does business in Spain, the Netherlands, Ireland, Italy, the US, the UAE, Bahrain, Qatar, Lebanon, Kuwait, Malaysia, Taiwan, Saipan, Bermuda, Marshall Island, Israel and Jordan.

SOURCE: BusinessMirror by Honey Madrilejos-Reyes. 03.25.08

ATR-Kim Eng fund seeking to raise P700M in share sale

Investment Company ATR-Kim Eng Equity Opportunity Fund, Inc. is aiming to raise P727.09 million in gross proceeds from the sale of 390.11 million shares at P1.8638 apiece. In a prospectus submitted to the Securities and Exchange Commission, the company said proceeds from the sale of shares would be invested and reinvested in a portfolio of high and low risk, companies in the Philippines and abroad, whether listed or not.

The ATR-Kim Eng Equity Opportunity Fund has yet to secure the nod of the corporate watchdog for the sale. "Investment in securities issued abroad shall be limited [to] 20% of the fund's net asset value although currently there are no plans of investing the fund in a foreign country The investment adviser shall be guided by the investment objectives, policies and limitations on investments," the investment fund said. All proceeds from the sale of the shares including the outstanding subscription of shareholders will be held by the custodian bank, Hongkong and Shanghai Banking Corp.

The ATR-Kim Eng Equity Opportunity Fund estimates net proceeds to hit P726.39 million, because of P704,238.84 in fees and other expenses. The minimum initial investment is P5,000 while subsequent investments must be at least P1,000, the ATR-Kim Eng Equity Opportunity Fund's prospectus said. The Mutual Fund Management Company of the Philippines, Inc. is the fund manager, investment adviser, distributor, administrator and fund accountant.

The ATR-Kim Eng Equity Opportunity Fund is an open-end investment company, which continuously sells its shares and stands ready to redeem — or buy back — the shares from its investors at the prevailing net asset value per share. With a 41.9% stake in the investment fund, Land Bank of the Philippines and BSP Provident Fund are the major shareholders. It is a "growth fund" seeking an absolute return either through long-term capital appreciation or by investing in equities.

The fund was registered in April 1997 as the All AsiaFund, Inc. On Feb. 6, 2003, Advent Capital and Finance Corp., then the sole shareholder of the fund, transferred all of its 50 million shares amounting to P24.79 million in the fund to AsianLife Financial Assurance Corp.

SOURCE: BusinessWorld by Ruby Anne M. Rubio. 03.26.08

BDO leads in asset management, UITF volume

Banco de Oro Unibank Inc. (BDO), the flagship institution of retail and mall magnate Henry Sy, bested all other financial firms in the country, both on the amount of assets under management (AUMs) and unit investments trust funds (UITF) for 2007. Industry data indicated BDO handled some P274.1-billion worth of AUMs and P46 billion in UITF, edging out the country's top two biggest lenders, Metropolitan Bank and Trust Company (Metrobank) and the Bank of the Philippine Islands (BPI).

The widening reach of BDO following its acquisition of Equitable-PCI Bank in 2006 and its longer operating hours, particularly in malls and other shopping outlets owned by its mother-firm, SM Investment Corporation, lifted the lender's ability to attract more clients.

BPI and Metrobank, on the other hand, took the third and fourth slots in the amount of UITF being managed at P32.4 billion and P14.6 billion, respectively. The second top grosser for UITF was ING Bank, managing some P40.6 billion. The attractiveness of UITF as a good investment vehicle for moneyed individuals as well as retirement funds, among others, is on a high swing, recovering from a slump it suffered nearly three years ago. Its returns were considered "very satisfactory."

Industry statistics, likewise, showed a reversal in the second third and fourth ranking in terms of AUMs with BPI trust department taking second top slot at P251.2 billion followed by Metrobank at P143.1 billion. ING, meanwhile, ranked fourth with in terms P75 billion, making it the leading foreign institution with substantial trust accounts and AUMs.

Total AUMs of the 36 banks with trust licenses reached a record P1.172 trillion, the growth from more than P800 billion at the onset of the year in review traced to the decision of the Bangko Sentral ng Pilipinas (BSP) to allow trust department of banks to access the high-yielding special deposit accounts (SDAs).

The higher interest rates offered by the BSP under the SDAs, one of the monetary tools used by the regulators to soak up the teeming cash circulating in the financial system, attracted more banking clients to shift their money from low-yielding regular and time deposits.

Rizal Commercial Banking Corporation, owned and controlled by Ambassador Alfonso Yuchengco, landed fifth with P52.3 billion under its management.

SOURCE: Manila Bulletin by Fil C. Sionil. 03.27.08

Landbank helps three rural banks beef up their capital

State-owned Land Bank of the Philippines has spent more than P300 million buying the debts of financial institutions in the countryside in a bid to beef up their capital. In a statement, the bank said it had bought unsecured subordinated debts issued by Green Bank in Butuan City (P112.5 million), Producers Rural Banking Corp. in Nueva Ecija (P120 million); and First Valley Bank in Lanao del Norte (P100 million).

The investment in the countryside banks is part of Land-bank's P1-billion program, which helps small banks to raise their capital adequacy ratio in compliance with stiffer global banking standards. Landbank is mandated to spur countryside development by focusing on lending to rural cooperatives and financial institutions, particularly farmers and fisher-folk.

"This is part of our efforts to assist our partner countryside financial institutions in increasing their capital base," Landbank President and Chief Executive Officer Gilda E. Pico said. "We consider [these] as able partners in reaching out to more borrowers in the rural area who have limited access to formal financing," she added.

To date, there are around 500 financial institutions in the countryside accredited by the state bank. The bank noted that among the commitments made by participating rural banks under the program is to triple the number of small farmers and fisherfolk that they lend to in the next five years.

SOURCE: BusinessWorld by C.S.S. Valencia. 03.28.08

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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