

## Industry Updates

Week ended 23 May 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.*

#### Big China bank eyes local partners

Industrial and Commercial Bank of China is looking for potential joint venture partners to set up shop in the Philippines, Finance Undersecretary Gil Beltran said over the weekend. Beltran said top officials of the largest bank in China led by head of global and acquisition team Gao Xiangyang and deputy general manager Wang Wendin were in the country to meet with officials of the Bangko Sentral and Department of Finance and inquire about the tax structure and requirements for investors.

They are in the country to look for partners. They see the potential of the country and they also realized that we are doing a lot of improvements, said Beltran. He said the bank was looking into a possibility of taking over or acquiring a bank operating in the country. Industrial and Commercial Bank of China has been aggressive in its overseas expansion after it acquired a 79.93-percent stake in Seng Heng Bank in Macau and a 20-percent equity interest in Standard Bank Group of South Africa in the first quarter of the year.

It is also seeking approval from foreign regulators to establish branches in New York and Sydney as well as a subsidiary bank in Dubai. Industrial and Commercial Bank of China was founded in 1984 and listed in Shanghai and Hong Kong in 2006. Its profit after tax for the first quarter of 2008 rose 76.10 percent to RMB33.282 billion.

Source: Manila Standard . Lawrence Agcaoil . May 12, 2008

#### GSIS thrift unit to expand, eyes medium-sized bank

GSIS Family Savings Bank plans to acquire a medium-sized lender to expand its operation in the medium term. A source said GSIS Family Savings is interested in buying Philippine Postal Bank to boost its assets and support the banking requirements of state-run Government Service Insurance System (GSIS).

Philippine Postal Bank's resources stood at P2.888 billion in October 2004. Among its mandate is to provide financial support to small farmers and other agri-ventures, as well as engage in the general business of savings and mortgage banking. "Our plan is to acquire a mid-size bank within the next two to three years," Winston F. Garcia, GSIS president and general manager, said, without naming the pension fund's planned acquisition.

"I cannot disclose just yet. But, this early, we are scouting for [a] possible acquisition," he said. Through the merger, GSIS Family Savings can push for an upgrade in its status from a thrift bank to a commercial lender. This is part of the incentives GSIS Family Savings acquired upon its rehabilitation.

## FINANCIAL SERVICES



### In the news

**Big China bank eyes local partners**

**GSIS thrift unit to expand, eyes medium-sized bank**

**Police, banks beef up security**

**Banks to draw rules covering payments**

**Tool to check banks' collateral readied**

**Back to basics for most banks**

**Philippine central bank eases ID requirement for transactions**

**Philippine central bank asks commercial banks to lend more to the poor**

**FDI into Philippines Tumbles**

**Chinabank board okays LTNCD issuance of up to \$188US MLN**

**Foreign investors may return to emerging economies--BSP**

To boost consumer lending, GSIS Family Savings has applied for a foreign currency deposit unit (FCDU) license, Reynaldo Palmiery, GSIS Family Savings president, said. This will also help the bank widen its remittance services. The thrift lender recently partnered with PetNet Inc. to use its infrastructure and reach overseas Filipino beneficiaries outside Metro Manila. "Aside from the FCDU license, we are also going to apply for a license upgrade to commercial bank. This will be our next step," Palmiery said.

Source: *Manila Times (Philippines)* . May 12, 2008 . Maricel E. Burgonio

### Police, banks beef up security

Police and bank security officials yesterday firmed up schemes against criminal elements in light of Friday's bloody bank heist south of Metro Manila. Yesterday's meeting at Camp Aguinaldo was attended by top officials of the Philippine National Police (PNP) and the Joint Anti-bank Robbery Action Committee (JABRAC), a group composed of representatives from government financial institutions, bank associations, and commercial and thrift banks.

The move was an offshoot of the robbery-slay incident at the Rizal Commercial Banking Corp. branch in Cabuyao, Laguna on Friday. Christopher Dobles, Allied Banking Corp. senior vice-president and a member of JABRAC, said most upscale banks already have security devices. "We have received information that there are some small banks which have yet to comply with the minimum security requirement of having security alarms and cameras due to the high cost of the devices," he told *BusinessWorld*.

Mr. Dobles said a minimum of P100,000 is needed to install the basic devices. "A normal CCTV camera costs P60,000 at the cheapest, metal detectors at around P20,00-P30,000 each... and then you have the alarms. The more high functioning these devices are, the more expensive they get."

Source: *BusinessWorld* . Jhoanna Frances S. Valdez . May 20, 2008

### Banks to draw rules covering payments

The country's universal and commercial banks have agreed to the real time gross settlement (RTGS) of payments amounting to P5 million and above - a proposal made by the Bangko Sentral ng Pilipinas (BSP) to mitigate the credit risks it faces from the current way payments are settled. Rene N. Carreon, central bank assistant governor for monetary operations, said the banks as represented by the Bankers Association of the Philippines (BAP), have agreed to organize a task force to come up with the rules and detailed operating procedures on the new payment system by this month, and conduct an information campaign and pilot-testing by June 15.

The Chamber of Thrift Banks, however, has objected to RTGS since its member banks find it difficult to reconfigure their systems. Mr. Carreon said he will echo the chamber's objection to the Monetary Board, so its member banks can be given more time to comply with the new payment system.

He cited the Philippines as the only country in the world that still does not implement real time processing and final settlement of funds transfers.

Under the BSP proposal, BAP will cover the temporary needs of all its clearing member banks that will incur a net debit position under its proposed collateralized overnight repurchase window. Mr. Carreon said the participating banks with clearing operations under the Philippine Clearing House Corp. (PCHC) will establish an overnight credit line with the BSP equivalent to 25% of the direct- participant bank's daily average outward items to protect BSP from credit exposure.

Source: *BusinessWorld* . Ruby Anne M. Rubio . May 19, 2008

### Tool to check banks' collateral readied

A tool designed to protect the central bank and the banks from credit risks is slated to be in place next month. Rene N. Carreon, assistant governor for monetary operations of the Bangko Sentral ng Pilipinas (BSP), told reporters that the first phase of the collateral information and management system or CIMS the central bank is developing should be up and running next month.

CIMS is essentially a database containing the collateral holdings of the central bank and the collateral position of banks and individual or corporate borrowers. The first phase will involve the setting up of a database detailing the collateral used by banks to secure loans from the central bank, which can be accessed through the BSP intranet.

In the second phase, scheduled for launching next year, a separate database containing the list of collateral used by banks to secure loans from government financial institutions such as the central bank, Land Bank of the Philippines, Development Bank of the Philippines and the Philippine Deposit Insurance Corp., may be accessed through the internet. And finally in the third phase, scheduled for launching in 2010, a database of collateral posted by individual or corporate borrowers can be accessed online. The CIMS was initiated last year to help the BSP and banks identify, assess, monitor and manage potential credit and

operational risks arising from the collateral they hold.

He pointed out that the CIMS will capture the collateral securing the loans extended by the BSP to banks, assets acquired through dacion in payment and foreclosure, and negative information relating to banks' and borrowers' collateral. The latter includes information on spurious titles and overvalued properties. CIMS will also have images, technical description and property valuation and appraisal. The CIMS will also contain a database of borrowers ranging from micro to large corporations and exporters, and collateral status such as those subject to legal or remedial actions.

Source: *BusinessWorld* . Ruby Anne M. Rubio . May 19, 2008

### Back to basics for most banks

Volatile financial market conditions, aggravated by the double punch of rising food and fuel costs, are forcing banks to moderate securities trading activity and return to the "basic" business of lending, an industry official yesterday said. Aurelio Montinola III, president of Bank of the Philippine Islands (BPI), said the bank is recasting its net profit growth projections for 2008, in line with the government's plan to change its macroeconomic assumptions.

The banking arm of conglomerate Ayala Corp. saw its net profit halved in the first quarter to P1.5 billion from a year ago, as the difficult local market conditions hurt its securities trading gains. Rising inflation in the Philippines resulted in higher interest rates, forcing the bank to migrate to shorter-tenored peso-denominated debts that in effect churned out lower interest income.

"We did not foresee the combination of the food and oil prices coming in together," Mr. Montinola told reporters in a contract signing between BPI and Manila Water Co. held yesterday. "Inflation would be higher and therefore, we have to translate that [change in forecast] to [revisions] in other items," he said referring to revisions in the bank's profit target for the year, which he did not disclose.

Prospects for the second quarter, he said, are not any brighter, with the bank expecting inflation to surge to 8%. The bank, however, is still bullish about growing its loan portfolio by 12-13% this year. "We're back to commercial banking basics," he pointed out. Other banks that reported poor first quarter earnings - among them, Banco de Oro Unibank and Philippine Savings Bank - have said they would focus on growing loans and deposits to boost interest earnings and offset the expected poor trading gains.

Source: *BusinessWorld* . Maria Eloisa I. Calderon . May 16, 2008

### Philippine central bank eases ID requirement for transactions

Filipinos who need to make banking transactions can now breathe a sigh of relief in terms of the number of identification cards (ID) they need to present, the central bank having recently reduced the requirement to just one document. This, after the Monetary Board (MB), the policy-making body of the Bangko Sentral ng Pilipinas (BSP), approved last Thursday a move to ease the ID requirement for bank transactions.

BSP Deputy Governor Nestor Espenilla Jr. told reporters the requirements were reduced from two to one while the list of IDs were increased and now includes those issued by agencies regulated by the BSP, Securities and Exchange Commission (SEC) and the Integrated Bar of the Philippines (IBP). The main reason is to promote and facilitate convenience in banking transactions without undermining the commitment to anti-money laundering, Espenilla said. The BSP executive said major considerations are the people from the rural areas, most of whom lack the required ID.

One instance is when beneficiaries of overseas Filipino workers (OFWs) receive remittances sent by their family members abroad. The bulk of OFWs are from rural areas, thus, people from this sector really need to present ID to get the money sent by their relatives. (PNA)

Source: *Asia Pulse* . May 15, 2008

### Philippine central bank asks commercial banks to lend more to the poor

The central bank of Philippines, Bangko Sentral ng Pilipinas (BSP), has called upon commercial banks in the country to lend more to the poor. The bank said that sharply rising consumer prices have necessitated bigger lending initiatives to the poor.

The governor of the bank, Amando Tetangco Jr, said, 'Today, as our country's poor grapple with the challenges of rising prices of basic commodities, the call for coordinated efforts to fight poverty has never been stronger. Let us therefore resolve to work more closely together to build stronger financial institutions that provide responsive service to microenterprises, sow the seeds of entrepreneurship, nurture local enterprises and build prosperity in our country through microfinance development.'

According to Tetangco, micro borrowers in the country were becoming net savers, and their total deposits had reached PHP2bn by the end of 2007.

Global Banking News . May 14, 2008

### FDI into Philippines Tumbles

Net foreign direct investment (FDI) into the Philippines tumbled in February, according to data released by the central bank yesterday. Net FDI, incorporating portfolio and fixed capital, fell by 83.4% to \$194US million in February from a year earlier.

Net equity inflows totalled \$31US million in February, down from \$599US million a year earlier. Investment was highest in sectors such as mining, construction, services and real estate, with the United States, Japan, Malaysia and South Korea proving the largest sources of investment. For the first two months of the year combined, net equity capital inflows totalled \$327US million--74.5% lower than the \$1US.28-billion haul recorded in the corresponding period of 2007.

The government has ascribed the sharp reversal in foreign investment inflows to recent volatility in global financial markets. The government is maintaining its target to attract \$4US.2 billion in FDI in 2008--hoping to double the \$2US.7-billion total recorded in 2007. FDI growth has proved relatively stagnant in recent years, reflecting unresolved operational problems in the economy, ranging from complex tax systems to poor infrastructure. Boosting levels of investment is essential if the economy is to increase development rates, which have reversed in recent years.

Source: Global Insight . Claire Innes . May 13, 2008

### Chinabank board okays LTNCD issuance of up to \$188US MLN

China Banking Corporation is set to issue its Long-Term Negotiable Certificate of Time Deposit (LTNCD) of up to P8 billion (\$188US million) in a bid to increase capital. In a disclosure to the Philippine Stock Exchange (PSE), Chinabank corporate information officer Alexander Escucha said the approval was made by their Board of Directors during its meeting Thursday. The planned LTNCD issuance will expand the Issuers long-term deposit base and support the Banks long-term asset growth, he added.

BSP allows banks to issue peso-denominated LTNCD with a minimum maturity of five years. Meanwhile, in another disclosure to the PSE, Chinabank vice president and corporate secretary, Atty. Corazon Morando said their Board has approved the declaration of 20 percent cash dividend or P20 per share. Record date and payment date are yet to be announced, the disclosure said. (PNA)

Source: Asia Pulse . May 12, 2008

### Foreign investors may return to emerging economies--BSP

THE Bangko Sentral ng Pilipinas (BSP) expects capital inflows to return to emerging economies like the Philippines as the global credit crunch eases. "Investors would adjust based on their risk preferences. The emerging markets are expected to be resilient and therefore would continue to be attractive to real money investors," BSP Gov. Amando Tetangco Jr. told reporters.

In March, net foreign portfolio investments went down due to heightened worries about the US economic slowdown and the tight credit conditions in major financial markets. The Asian Development Bank earlier said global financial markets were still in the middle of the credit crunch that arose from the US subprime crisis. The regional lender however said confidence will be restored in 6 to 12 months.

Based on its latest report, the BSP said net foreign portfolio investments registered a net outflow of \$197.7 million in March, a reversal from the \$370-million net inflow on February. This was due primarily to the deepening global credit crisis, which has also driven investors back to more developed markets. Portfolio investments involve money foreigners invest in local stocks and other peso-denominated financial assets.

Source: *The Manila Times (Philippines)* . Maricel E. Burgonio . May 12, 2008

### Feedback

Please contact Ernie Diaz (+632 885 7000 ext: 229 or [etdiaz@kpmg.com.ph](mailto:etdiaz@kpmg.com.ph)) or Gillian de Guzman (+632 885 7000 ext: 369 or [gdddeguzman@kpmg.com.ph](mailto:gdddeguzman@kpmg.com.ph)) to discuss your views/suggestions.

---

### Privacy & Disclaimer

This publication is a summary of publicly reported information, the accuracy of which has not been verified by KPMG. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.