

VISTA

• FOREIGN BANKS IN THE PHILIPPINES

APRIL 2015

In this month's VISTA, we want to take a look at the current Foreign Banks in the Philippines and glimpse at some of the changes occurring in the banking sector. As our readers are aware, changes late last year in the Philippine laws have eased up restrictions on Foreign Bank entry and spurred a flurry of activity and weekly news and speculation on Foreign Banks entering the market. *The entry of these foreign "barbarians" should not be considered as a threat but an opportunity to expand growth in the Philippines and allow the Philippines to connect to cross border opportunities within ASEAN.*

CURRENT STATUS

Out of a total of 36 Universal and Commercial Banks in the sector, 10 Commercial Banks and 6 Universal Banks are Foreign Bank branches or subsidiaries. These Foreign Banks have a Total Loan Portfolio (TLP) of PHP **452.1bb** (10.51bb USD) and represent less than **8.8%** of the total Universal and Commercial Bank sector (5,117.88bb PHP/ 119.02bb USD). In terms of Total Assets, Foreign Banks represent **9.9%**. Foreign banks have Non Performing Loan (NPL) ratios comparable to the rest of their local peers (2.0% vs. 1.9%) and strong balance sheets but have limited branch networks. Citibank is the largest Foreign Bank by TLP representing 25.6% of the Foreign Bank segment followed by HSBC (12.4%) then Maybank (10.7%). (See Annex for the full list of banks).

Comparison Statistics

	Foreign	Total System	% Foreign
# of Banks	16	36	44.4%
Total Loan Portfolio (TLP) (bb PHP)	452.10	5,117.88	8.8%
Gross NPL (bb PHP)	8.99	96.72	9.3%
NPL to TLP (Ratio)	2.0%	1.9%	

Source: Bangko Sentral ng Pilipinas (BSP)

ENTRY OF FOREIGN BANKS

In November 2014, the BSP approved **Republic Act 10641**, which eases regulations and allows for the further entry of Foreign Banks into the country. In addition to removing a cap on the number of banks, the new law also allows Foreign Banks to acquire up to 100 percent of the voting stock of an existing domestic bank and allows Foreign Banks to control up to a combined 40 percent of the total assets of the banking system.

In the last few months, many Foreign Banks have expressed interest and applied for branch or subsidiaries. Three have been approved already: Cathay United Bank- Taiwan, Sumitomo Mitsui Banking Corp- Japan, and Shinhan Bank- Korea. According to the Central Bank Deputy Governor, there are also two applications under evaluation and four more banks have expressed interest. The interest seems to stem mostly from Asian Banks possibly given the ASEAN integration and the fact that many of the European and North American banks are busy addressing their own challenges and issues. Many Foreign Banks (13) are already in the Philippines and have a “non banking” presence in the form of representative offices. Singapore Banks dominates the ASEAN banking scene and have a modest presence in the form of rep offices (DBS and OCBC/ Bank of Singapore), worth noting is that United Overseas Bank had a presence but in 2006 it converted to thrift bank and sold its 66 branches to local player BDO. In addition to opening branches or subsidiaries, banks could also acquire or partner with local banks but so far we have not seen any major news on this tactic beside some minority equity sale activity on RCBC (Cathay and IFC) and the rumored sale of some of UCBP shares. Many of the larger banks are part of the wealthy family groups and conglomerates and would not be open to M&A activity. Some of the smaller and mid tier city bank could be candidates.

CHALLENGES AND OPPORTUNITIES

OPPORTUNITIES

- Cross border lending and investments. Many officials are hoping the new entrants will spur increased lending and foreign investment particularly in PPP (Public Private Partnerships) and infrastructure projects which continue to be a cited a weakness in Philippines' growth strategy and outlook. Many regional banks have private or high net worth clients and institutional services so there are also prospects that there can be more established channels and sources of investments.
- Possibly increased overall domestic credit/lending. The Philippines has a low Domestic Credit to GDP ratio (**29.1%**) compared to ASEAN neighbours (see chart). Domestic debt is in the bottom of the pack as well at around 35%. Higher credit and lending helps spur growth driving consumption and investment and possible there would be a modest push to increase credit. Keep in mind that too aggressive lending could also lead to distressed assets, so the Central Bankers and Banking Managers need to find the appropriate lending level to support growth without overleveraging the economy.

Domestic Credit to GDP

Country Name	2008	2013	5Yr Growth
Hong Kong SAR, China	140.3	219.5	56.5%
China	103.7	140.0	35.0%
Singapore	98.6	128.9	30.7%
Malaysia	96.6	123.9	28.3%
Thailand	93.8	121.0	29.0%
Vietnam	82.9	96.8	16.8%
Cambodia	23.4	45.3	93.6%
Philippines	29.1	35.8	23.0%
Indonesia	26.3	34.0	29.3%
Lao PDR	9.6	-	

Source: World Bank

- OFW remittance costs. The Philippines is number 3 in terms of global remittances after India and China. The entry of some regional bank players might help reduce the cost and burden for the many OFW's who use these services.
- Product offerings. Foreign Banks should be able to offer products for underserved sectors which include the expats or small and medium enterprises (SMEs). For example, it is challenging for foreigners to obtain mortgage loans as many local banks say they will offer loans but with all of the administrative rules and cumbersome requirements most banks practically don't lend. Offering easier mortgages to cross border expat clients or foreign

individual investors could increase condo sales and other investments. Many SMEs face lending rates north of 15% (APR) because of smaller balances sheets or more modest financial statements. Again, this is an opportunity for bank to pick up net interest margin. Many residents of Philippines will also look forward to new banking options and overseas services and global products. New products could offer some increased options and hopefully increase competition and lower prices for consumers on some banking products.

CHALLENGES

- ROPA (Real and Other Properties Acquired). Foreign Banks will face a challenge given limits on foreign ownership of land. They won't be able to hold ROPA and so will need to create structures and exit strategies to work around this issue or limit lending to just condominium units.
- Branch Networks. Foreign Banks face the strong infrastructure of the local players with an existing network of over 6,000 branches for Universal and Commercial banks. It is costly and requires a lot of manpower to expand locally so many banks might just opt for a NCR location and compete on international business versus going after any domestic business.

CONCLUSION: "Barbarians at the Gate??"

The Philippine Banking sector continues to be stable and has positive fundamentals. The Commercial and Universal bank NPL key indicator ratios continue to remain low with a 4.1% Distressed Asset ratio and a 1.96% Gross Non performing loan ratio as of February.

There should be "No worries" about the Foreign Bankers at the gate and these "barbarians" can be welcomed with open arms and bring benefits to the Philippines' economy. With their current 9.9% asset share of the banking system, the Foreign Banks have some way to go to hit the regulatory ceiling of 40%.

There is plenty of pie and it's getting bigger so this could be a great benefit not only for the new foreign entrants and consumers in the Philippines but for the ASEAN community as a whole.

ANNEX

Summary statics and list of Foreign Banks in the Philippines as of December 31, 2014

BANK NAME	TOTAL ASSETS	Deposit Liabilities	Gross Total Loan	a. Gross NPLs
Citibank, N.A.	295,137,086,106	170,462,291,049	116,077,710,246	3,126,649,482
The Hongkong & Shanghai Banking Corporation	199,613,645,455	125,251,199,940	56,233,320,619	1,326,767,656
Maybank Philippines, Inc.	78,119,611,599	59,634,237,437	48,485,373,592	1,482,039,354
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	55,716,245,284	39,802,198,557	36,367,748,946	-
Standard Chartered Bank	64,818,310,609	48,742,156,589	36,252,890,928	2,547,665,280
ANZ Banking Group Ltd.	54,016,589,815	24,785,572,851	27,372,020,430	23,339,115
JP Morgan Chase Bank, N.A.	54,215,004,668	40,988,043,144	23,070,257,639	734,885
Mizuho Bank, Ltd. - Manila Branch	32,484,051,268	27,364,990,821	21,583,310,006	-
ING Bank N.V.	35,362,426,482	7,350,331,931	19,988,603,562	91
CTBC Bank (Philippines) Corporation	27,372,631,238	19,011,389,413	18,040,804,976	446,996,686
Deutsche Bank AG	48,670,994,419	21,548,572,710	16,177,672,320	-
Mega International Commercial Bank Co., Ltd.	11,861,454,120	3,267,607,117	10,108,776,266	-
Bank of China Limited-Manila Branch	17,455,394,481	9,132,564,518	9,208,622,578	8,660,896
Bangkok Bank Public Co. Ltd.	7,862,422,364	2,530,218,686	7,406,446,477	4,714,156
Korea Exchange Bank	7,957,857,150	4,504,738,117	3,956,876,099	23,550,180
Bank of America, N.A.	15,218,755,866	11,631,655,199	1,774,385,038	4
TOTALS	1,005,882,480,921	616,007,768,080	452,104,819,723	8,991,117,785

Source: Bangko Sentral ng Pilipinas (BSP)

There are 13 Foreign Banks with **Representative Offices** in the country, as of April 2015

1. Bank of Singapore Limited Representative Office
2. Barclays Bank PL Representative Office
3. Cathay United Bank Representative Office
4. DBS Bank, Ltd. Representative Office
5. Japan Bank For International Cooperation Representative Office
6. Rothschild (Singapore) Limited Representative Office
7. State Bank of India Representative Office
8. Sumitomo Mitsui Banking Corporation Representative Office
9. The Bank of New York Mellon Representative Office
10. The Export-Import Bank of Korea (Korea Eximbank)
11. UBS AG Representative Office
12. Wells Fargo Bank, National Association Representative Office
13. Korea Development Bank Representative Office

3 Foreign Banks have offshore banking units: Taiwan Cooperative Bank, BNP Paribas, JP Morgan

There are also several Foreign "Investment" Banks and reputable Broker /dealer s operating in the Philippines not touched upon in this report.

INQUIRIES

Office: Unit E-1 Garden Level, Corinthian Plaza Bldg., Paseo De Roxas cor Legaspi St., Makati City
Telephone: (02) 859-1000
Fax: (02) 859-1088
Website: www.pinnacle.ph

For inquiries on Pinnacle's Vista, Market Insight, or E-property News publications please contact Jojo Salas jsalas@pinnacle.ph, Neil F Hagan, CFA nhagan@pinnacle.ph, or Bryan Barredo bbarredo@pinnacle.ph

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