

Amando M Tetangco, Jr: Turning challenges into opportunities

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines, during the 50th Anniversary Celebratory Luncheon of Rang-ay Rural Bank, Inc. (Rang-ay Bank), Sevilla, San Fernando City, La Union, 14 January 2006.

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Governor Victor Ortega and Mayor Mary Jane Ortega, officers and staff of Rang-ay Bank led by Chairperson Eufrosina Nisce and Rang-ay President Ives Nisce, co-workers in the banking sector and colleagues from the government sector, distinguished guests, ladies and gentlemen:

Naimbag nga malem 'yo amin (Good afternoon)!

I am indeed honored to be among the witnesses of this momentous occasion. Thank you for this privilege of being with you in celebrating your 50th anniversary.

Today, we all are witnesses to the realization of your founders' vision 50 years ago. And it is certainly one exhilarating experience. This feat has significant impact to the banking industry and most especially to the community that Rang-ay has been serving for half a century. Thus, I also take this opportunity, to express Bangko Sentral's appreciation to the entire family of Rang-ay, particularly for being consistently in congruence with all our policy and regulatory reform initiatives all these years.

Rang-ay at 50

Rang-ay Bank has undoubtedly lived up to its name. It has been bringing progress or should I say "karangyaan" to the community it serves from the first moment it opened its doors as a pioneer private bank in San Fernando, La Union on January 16, 1956.

Today, you understandably have the right to be proud of your accomplishments. The last time we looked, you are still this region's number one bank and among the top 25 rural banks nationwide in terms of both physical and financial resources.

Your strong presence in Region 1 as well as in the nearby Cordillera Region is made possible by your network of ten branches (including that of a former affiliate - RB of Burgos).

You continue to enjoy the trust and confidence of over 15,000 depositors¹ whose savings are now close to half a billion.

Likewise, you have a relatively strong capitalization of 120 million. Rang-ay's risk-based capital adequacy ratio (CAR) of 18.5 percent is also well above industry and regulatory standards.

Your total loan portfolio is nearly half a billion which accounts to 65.5 percent of your total assets. Your lending activities have surely provided farmers and other entrepreneurial rural folks with wider latitude in accessing credit which translated to better lives for the rural community.

With your wide array of deposit products and credit lending programs, you managed to sustain bottom line figures at very good levels.

Rang-ay's performance definitely did not go unnoticed as evidenced by the various accolades from financial and non-financial organizations², the Bangko Sentral included.

As such, one can say that rang-ay is poised to further improve its level of efficiency to ensure continuous market leadership during these challenging but equally rewarding times.

¹ To date, the Rang-ay Bank has 1 head office, 9 bank branches and 1 affiliate bank (Rural Bank of Burgos, which will be consolidated with Rang-ay, Inc. following the grant of the certificate of authority to operate by the BSP

² Rang-ay received 1 award from the BSP, 7 awards from other banks, 1 award from Rural Credit and Guarantee Corporation and 3 awards from a private non-government organization (NGO).

Industry outlook

Let me therefore take the next few minutes to outline the banking industry prospects in 2006 to help you firm up your strategic plans for this year and beyond.

We are optimistic that the rural banking industry will sustain its positive performance this year and remain in the forefront of reforms as catalysts of a broad-based development in the countryside.

For our part at the regulatory front, the BSP remains committed to the continuous implementation of our reform program to sustain financial stability and growth. Specifically, our objective is to have a more stable, more efficient and a more depositor and friendly banking system.

We are still advocating clean up of banks' balance sheets through the expedient and innovative disposition of non-performing assets. This is central to restoring the credit supply to the productive sectors of the economy.

Our goal is to bring the banking industry's NPA/NPL ratio to single-digit level. As of end-June 2005, the rural banking industry's NPA/NPL ratios stood at 11.9 and 14.7 percent, respectively. This is still double the pre-crisis period since the sale of NPAs under the SPV Law only created a small dent on the inventory of acquired assets arising from soured loans.

We, thus, welcome the approval by the House of Representatives of the extension of the SPV Law³ by another two years. We are hopeful that the senate will approve the counterpart bill soonest so that banks can immediately resume the wholesale clean up of bad assets. We expect that this extension will result in the unloading of at least another 100 billion in bad assets so that NPL ratio will more or less be lowered to about 7 percent.

We are also studying if Joint Venture Agreements (JVA) can give greater flexibility to banks to dispose of their bad assets apart from availment of incentives under the SPV Law. The unloading of foreclosed real estate properties through joint venture agreements⁴ (JVAs) that will develop and enhance the marketability of banks' acquired assets, particularly undeveloped properties, will not only clean up banks' balance sheets but also potentially boost the housing market and even tourism.

Beyond asset clean up, the BSP is following through with its regulatory reforms aimed at further strengthening corporate governance, risk management and capital adequacy in our banks through a more effective and efficient enforcement.

Last year, we began the changeover to International Accounting Standards/Financial Reporting Standards. This would further strengthen the current transparency and disclosure requirements in financial reporting. The pivotal role of external auditors during this transition period is also being given higher importance.

Recently, we have issued new regulations on internal audit designed to adopt a code of ethics and establish mechanisms for the reporting of financial improprieties, malpractices and acts of misconduct (corporate whistle-blowing).

We are also sustaining our lobbying efforts in congress for the passage of the amendment to the BSP Charter and the enactment of the Credit Information System Act. The first will make the BSP a more effective monetary authority and banking regulator while the other will pave the way for the establishment of a truly comprehensive credit information system that is expected to lower the cost of borrowing, provide greater access to credit in general and reduce the dependency on collateral based lending.

Beyond regulatory initiatives, the BSP is also equally committed in its advocacy to promote a sustainable microfinance program as a tool to alleviate poverty.

The present poverty situation in the Philippines has given rural financing a new dimension, concretizing the significant role of rural banks in countryside development⁵ Toward this end, we have

³ Target is first quarter of 2006

⁴ A proposal is currently under study for approval of the Monetary Board. Upon approval, this will initially allow U/KBs to dispose their Real and Other Properties Owned or Acquired (ROPOA)s to various JVAs with real estate developers. At present, ROPOA still accounts to 46.0 percent of the banking system's overall level of NPAs.

⁵ At present, there are 4 microfinance-oriented rural banks and 158 rural banks engaged in some level of microfinance with a total loan portfolio of P2.3 billion catering to a total of 441,963 borrowers.

recently allowed the selective⁶ lifting of moratorium on bank branching to facilitate the expansion of financial services in underserved areas. Under Circular No. 505, we foresee, among others; the growth of bank microfinancing to benefit rural folks with greater access to formal banking services that in turn, mobilizes savings and investments.

Moreover, we foresee an accelerated consolidation process in the banking industry in the next 3 years. This will be brought about by (1) a stronger regulatory framework that will hasten the exit of weak banks, hopefully on a voluntary and market-based basis; (2) the increasingly stronger competition by new foreign investors coming in, in existing banks; and (3) the rigorous technical demands posed by modern banking and finance standards.

All these changes will dramatically transform the competitive environment. Down the road, we see a banking landscape characterized by a handful of main banks complemented by an abundance of smaller banks that serve various well defined market niches.

Final note

In closing, let me call on this generation of the family behind rang-ay bank to transform these reform initiatives into opportunities and further stretch your vision over the next years to come.

With your wealth of experience, rang-ay can lead in turning the heavy flywheel of remaining reforms for the rural banking industry.

I trust that rang-ay will harness its core expertise, geographic advantage and strong ties with the community in promoting a safe, sound and responsive banking system.

Let us all work together in keeping the wheels of change turning.

Agyamannak (thank you) and happy anniversary!

⁶ Prohibition on bank branching remains in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig and Quezon including the municipality of San Juan.