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ABOUT THIS ISSUE

The third quarter marked historical lows for the country's biggest banks. During the period, assets of 45* universal and commercial banks (U/KBs) grew 5.13% year on year, the most sluggish growth observed in almost 13 years, or since the 0.56% decline in the first quarter of 2008 and the 3.78% growth in the fourth quarter of 2007.

Moreover, the 0.74% annual decline in bank loans marked the first decline in almost 11 years, or since the first quarter of 2010 when it posted a 0.15% decline. The third-quarter result was the fastest contraction seen since the first quarter of 2003 when loans declined by 4.17%.

What's arguably more concerning, however, is the increase in soured loans. The gross nonperforming loans ratio — or gross bad loans in proportion to total gross loans — worsened to 3.57% in the third quarter from 2.02% in the second quarter of 2020 and 1.66% in the third quarter of 2019. This was the highest since the Bangko Sentral ng Pilipinas (BSP) introduced a new reporting standard in the first quarter of 2013.


Analysts and bank executives have already expected these NPLs to increase once the one-time 60-day loan moratorium provided by Republic Act No. 11494, or the Bayanihan to Recover as One Act (better known as Bayanihan II) expires on Dec. 19.

This is reflected in the continued growth in loan loss reserves which contributed to the slide in profitability. In the third quarter, total loan loss reserves reached P294.805 billion, more than the P261.538 billion and P171.316 billion seen in the preceding three months

and the comparable three months last year, respectively. Consequently, bad loan coverage ratio fell to 102.76% from the previous quarter's 123.20% and last year's 107.97%.

The feature articles for this edition focus on the area of insurance amid the search for safety nets in these challenging times. The first feature discusses how the pandemic has led to an increased awareness in bancassurance products and the outlook of bancassurance firms heading into 2021 and beyond. The second feature, which zeroes in on insurance firms catering to low-income households, delves into the challenges they are facing amid constrained operations, their concerns going forward, and what assistance they seek from the government. Rounding the roster of articles for this report include the 2021 outlook for financial markets, recommendations for bank stocks, and a Q&A session with Security Bank Corp. Head of Bancassurance and Sales Harold S. De Leon with regard to the Bank's bancassurance arrangement with FWD Life Insurance Corp.

Since 1987, *BusinessWorld* has been tallying the quarterly performance of the country's universal and commercial banks (U/KBs) based on their published statements of condition (SOC). Apart from asset size, the Quarterly Banking Report (QBR) provides other key ratios used in measuring bank performance, such as capital adequacy, earnings and liquidity.

** Bank of China Ltd. was not included in the report because its statement of condition had not been available when the compilation of financial data was concluded on Nov. 27. *

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