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## ABOUT THIS ISSUE

**T**he first three months of the year proved to be another challenging period for the country's biggest banks as they issued even fewer loans amid the piling up of soured loans amid the coronavirus pandemic.

The first-quarter edition of *BusinessWorld's* Quarterly Banking Report showed the aggregate loans of 46 universal and commercial banks (U/KBs) declined by 5.98% year on year to P9.351 trillion in the January-March period, sharper than the 3.96% contraction posted in the preceding quarter.

The reduction in loans in the first quarter of this year marked the sharpest since the first quarter of 2003 when loans lent by U/KBs fell by 9.84%. The latest reading brought the losing streak in loans to three consecutive quarters.

The quarter also saw bad loans, also known as nonperforming loans (NPL), rise by 17.2% year on year to P361.892 billion from P308.832 billion in the fourth quarter of 2020. Compared with the same period last year, soured loans grew by almost 70%. This brought the NPL ratio to 4.12% in the first quarter, surpassing the record-high NPL ratio of 3.68% in the fourth quarter of 2020 based on new reporting standards introduced by the Bangko Sentral ng Pilipinas (BSP) in the first quarter of 2013.

Moreover, asset quality among UK/Bs deteriorated in the first quarter as their nonperforming asset ratio (NPA) — or the NPLs and foreclosed properties in proportion to total assets — worsened to 1.38% from 1.17% in the previous quarter.

While the banks' median capital adequacy ratio (CAR) of 19.78% in the first quarter remained above the required minimum of 10% set by the BSP and the international standard of 8%, this was a tad lower than the 20.14% logged in the previous quarter. CAR measures the ability of banks to absorb losses from risk-weighted assets.

Profitability in the first quarter improved from the preceding quarter as the median return on equity (RoE) was tallied at 3.89% from 3.66%. However, this was still lower than the RoE of 5.17% in the first quarter of 2020.

This edition features two articles discussing the recently-signed Financial Institutions Strategic Transfer (FIST) law and the planned implementation of Open Finance in the country. The FIST law (Republic Act 11523) allows credit-granting institutions to clean their balance sheets by selling their NPAs to asset management companies called "FIST corporations" that are registered with the Securities and Exchange Commission. Meanwhile, Open Finance allows third-party providers to have access with "customer-permissioned" data and then leveraging those to provide additional financial products and services.

Rounding the roster of articles for this report include the quarterly outlook for financial markets, recommendations for bank stocks, and a Q&A session with Greg Krasnov, founder and CEO of industry newcomer TONIK Digital Bank, Inc.

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

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