BusinessWorld *in-depth*

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ABOUT THIS ISSUE

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. 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 – all key components of the "CAMELS" (capital adequacy, asset quality, management, earnings, liquidity, and sensitivity) system used internationally in evaluating a lender's health.

The first quarter of 2020 proved to be a challenging time for the country's U/KBs as economic activity was severely limited by the lockdown restrictions set to curb the spread of the virus. Data for the first three months showed big banks reporting lower profits, reduced capacity to absorb risky assets, and slower asset growth compared to the same period last year. The combined assets of 41 UK/Bs grew 7.06% to P17.837 trillion during the quarter from P16.660 trillion from January-March last year – slower than the 8.16% recorded in the fourth quarter of 2019 and 10.91% in the 2019's first quarter.

It should be noted that statements of conditions for five U/KBs were not available as of June 9 when the compilation of the financial data was concluded. The five banks are Australia & New Zealand Banking Group Ltd.; Bank of America; Bank of China; Chang Hwa Commercial Bank Ltd., Manila Branch; and First Commercial Bank Ltd., Manila Branch.

That said, the banks' median return on equity – which measures how well a firm makes use of the money from shareholders to generate income – slipped to 5.17% in the first quarter from 6.75% in the preceding quarter and 8.05% in 2019's comparable three months.

Bank loans, which made up around 55.76% of big banks' assets last quarter, totaled P9.946 trillion, up 9.73% from last year's P9.064 trillion. This is faster than the 9.30% year-on-year growth in the previous quarter, albeit slower than the year-ago 12.38%.

The banks' median capital adequacy ratio – or the ability to absorb risk-weighted assets – declined to 18.33% in the first quarter from the previous quarter's 21.53% and the previous year's 18.84%. Even so, this remained well above the required minimum of 10% set by the Bangko Sentral ng Pilipinas and the international standard of eight percent required under the Basel III framework.

Asset quality also slipped in the first quarter as shown by the lower nonperforming asset ratio (0.86% from 0.73% three months prior) and nonperforming loan ratio (1.93% from 1.88%).

In addition to the financial data, the Banking Report also provides feature articles on the sector with the theme focused on banking in the time of COVID-19. The banner story discusses banking in the so-called "new normal" that necessitated the use of digital platforms amid lockdown restrictions imposed by the government. The article "Pandemic speeds up shift to digital banking" discusses this further in detail, while another feature looks at assistance provided to micro, small, and medium enterprises amid the pandemic. Rounding the roster of articles for this report include the outlook for financial markets, stock recommendations for listed banks, and a Q&A session with Pag-IBIG Fund. BW

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