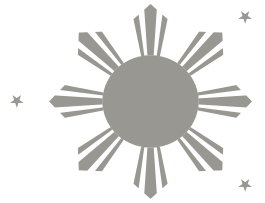




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I. MARKET OVERVIEW

The Philippine economy sustained its growth momentum having experienced a 6.3% increase in the 4th quarter of 2015, leading to a 5.8% year-on-year growth. Banks lead the sector with over 80% of the total industry assets and serve as a main source of credit in the economy making them the driving force in strengthening the country's financial system.

The Philippine banking system has recorded sustained growth in assets and deposits, while the country's balance of payments (BOP) produced a surplus of €726 million in the 4th quarter which is higher than the previous year.

By the 4th quarter of 2015, the total number of banks' head offices slightly declined from 652 to 635 as a result of consolidation that encouraged the entry of bigger foreign players and caused the exit of weaker or smaller players.

Growth in loans, financial assets, and equity investments increased the resources of the banking system by 7.4% to €239.4 billion as of December 2015, while the insurance industry generated over €3.32 billion in total premium income, up 29.7% from €2.56 billion in the same period a year ago.

The insurance industry's income from life and non-life premiums generated about €4.5 billion last year. This strong growth is expected to be sustained as regulators forecast premium income to expand by 28% to €5.78 billion in 2016. There are at least 26 life and 71 non-life insurance companies in the Philippine insurance industry.

II. MAIN LEGISLATIVE FRAMEWORK

RA 7721 – An act liberalizing the entry and scope of foreign banks' operations in the Philippines

This law enabled foreign banks to either own up to 60% of the voting stock of an existing domestic bank or a new banking subsidiary or establish branches with full banking authority.

RA 10641 – An act allowing the full entry of foreign banks in the Philippines

Under this new legislation that amended RA 7721, foreign banks are now permitted to own up to 100% of domestic banks and facilitate the entry of established, reputable and financially sound foreign banks in the Philippines. The law also allows locally-incorporated subsidiaries of foreign banks to enjoy the same banking privileges of domestic banks.



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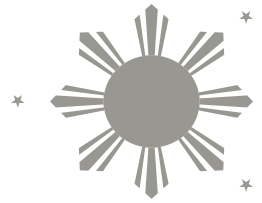


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RA 8367 – Revised Non-Stock Savings and Loan Association Act of 1997

It is the policy of the state to:

- ★ Encourage industry, frugality and the accumulation of savings, and judicious utilization of credit among the members of non-stock savings and loan associations;
- ★ Regulate and supervise the activities of non-stock savings and loan associations in order to place their operations on a sound, stable, and efficient basis to the end that they may be able to better provide for the establishment of additional savings and credit facilities in a fair manner to their members and to curtail or prevent acts or practices of these associations which are prejudicial to their members' interest;
- ★ Lay down the minimum requirements and the standards under which non-stock savings and loan associations may organize and operate; and
- ★ Maximize the protection of members of non-stock savings and loan associations against misfeasance and malfeasance of the trustees and officers thereof.

III. MAJOR OPPORTUNITIES FOR EU BUSINESSES

Implementation of the Foreign Banking Liberalization Law in line with ASEAN Integration

Some industry players raised the concern that the authorized full entry of foreign banks in the Philippines will shake the domestic financial stability and that larger banks will dominate the local financial market resulting to the possible withdrawal of small local players. There is a need to progressively implement the policy framework relating to the operation of banks in

such a way that it will protect the interests of both the foreign and local players. For liberalization to translate into a stronger national banking sector, increased focus should be given to the enforcement of measures to combat non-compliance in line with the existing legislative framework. This further liberalization places the Philippines in a more strategic position in the context of the expected implementation of the ASEAN Banking Integration Framework (ABIF) by 2020.

Sustained expansion of the insurance industry

As the insurance industry's performance and outlook remain positive, more varied distribution channels can further promote sector growth. A number of foreign financial institutions offering bancassurance products have indicated interest to form joint venture agreements with major local banking players. Furthermore, although there are considerable opportunities for growth in short-term insurances for health, accident, crop, and livestock policies, the potential of microinsurance schemes could be more fully optimized by improving delivery channels and exempting microinsurance products from premium-based taxes.

Improvement of financial services through technological innovation

Recent reforms to promote a more open banking sector and growing demands to streamline the current banking landscape in view of regional developments, mainly due to ABIF, increasingly require technological solutions to make the Philippines' financial services industry more efficient, competitive, and responsive to clients.



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