

RBAP INDUCTION 2013 REMARKS*

Outgoing Rural Bankers Association of the Philippines (RBAP) President, Mr. Junjun Garcia, incoming President, Mr. Vito Almario, directors and officers of RBAP, good evening.

It is my pleasure to join your inaugural dinner and induction of the new set of RBAP officers and directors. There is always something very hopeful about inaugurals as they mark new beginnings. We eagerly look forward to the fresh ideas, innovative solutions and pioneering initiatives that can take the rural banking sector to the next level.

This is an opportune time to recognize the many accomplishments of the outgoing set of directors and officers. The collective performance of the rural banking sector in the past year has been generally positive. End-December 2012 figures show that operations have continued to expand with a moderate but steady increase in the loan portfolio from PhP 108 Billion in end 2011 to PhP 114 Billion as of end 2012. Deposit liabilities have similarly increased. So has total capitalization. Meanwhile, the return on assets and on equity have also further improved from the previous year. The underlying picture actually looks even better if we adjust for the migration of some major rural banks to the thrift banks category.

To be sure, the picture has been marred by the sporadic closure of a number of rural banks that have been poorly managed. It is rather unfortunate that some in media have headlined and disproportionately covered such events, with an eye for the sensational, as if the failure of a rural bank defines the whole rural banking industry comprised of hundreds of banks that each ably serve their own defined markets and communities. These are the banks that should be headlined but are not. Many of you are here tonight.

Life can be unfair. But how we deal with it defines our character. Some say that rural banking has become a “damaged” brand as a result of all the sensationalistic negative publicity.

I do not believe so. But rather than wring your hands and despair about it, I urge the rural banking community to rally behind your leadership and work together to burnish your image and remind us all of the valuable contributions of the rural banking industry to the economic health of vitality of our communities.

Let us work hand-in-hand together, regulator and the rural banking community, to overcome any negative perception. It begins with our candid and unflinching self-

* Delivered by BSP Deputy Governor Nestor A. Espenilla, Jr. during the Rural Bankers Association of the Philippines (RBAP) Inaugural and Induction of New Officers and Directors on 12 July 2013 in Manila.

assessments to identify what is not working well and our courage and dynamism to make things right. And we should not be shy to tell the world pro-actively the good news rather than wait and react to negative news. That is how we can fundamentally build and reinforce the trust and support of our constituencies.

There were many positive news that capped the term of the outgoing officers and directors. But I would like to single out one particular milestone. After many years of legislative advocacy, the measure that allows foreign equity in rural banks was finally signed into law last May. Republic Act 10574 opens the opportunity for rural banks to leverage on the resources of strategic foreign investors to strengthen your financial positions and know-how that will enable you to thrive and compete.

It is also worth noting that the outgoing officers and directors focused on the natural role of rural banks in financial inclusion during the recently concluded Annual National Convention and Corporate Meeting. This is an indication of your desire to capitalize on your inherent competitive advantage that will allow you to thrive side by side larger banks.

For all this, let us give the outgoing officers and directors a well-deserved round of applause. For the incoming officers, I would say that you have your work cut out for you. I challenge you to continue the work of strengthening the rural banking industry.

We believe that strength of a bank is not in its size alone. The determinants of success rest on sound governance, adequate risk management and clear business models that will allow you to maintain efficient operations while seizing opportunities for growth.

The regulations that we have been putting in place address these critical issues such as the discipline of compliance, good corporate governance, loan loss provisioning and capital adequacy, among others. These are designed to empower your banks to establish the mechanisms and systems within your institutions that are fit to your respective operations. As I mentioned to you during your Annual National Convention, we are consistent and faithful in applying regulations that are proportionate to the complexity of your banks. We will not unnecessarily impose measures that are not commensurate to the level of your business risk. This is the very essence of our differentiation of the simple from complex banks.

It is my hope that we are already on the same page in appreciating these regulations not as a compliance burden that needs to be undertaken to satisfy the regulator and to avoid penalties but instead are measures that are crucial to your growth and viability as a business. In the end, adherence to regulations will benefit your customers in terms of better services and your shareholders in terms of better returns.

As your regulator, we want you to be strong, stable, and well-positioned to deliver a wider array of much needed financial services in the countryside.

Indeed, the rural banks are the most important catalysts of local economic development. Your ability to channel local funds into the productive activities within your areas of operation is the key in ensuring a broad based and inclusive growth. In this task, we consider you as our most able partners.

As your partner, we will continue to pursue our enabling policies and regulations on financial inclusion. These have provided you with various opportunities to be more responsive to the markets that you would like to serve in terms of the products and delivery channels that you can offer. We will continue to be responsive to your ideas and suggestions to promote our shared objective of bringing good banking services to our underserved and unserved areas.

While the changing of the guards within the RBAP happens yearly, some things remain constant. BSP, as not only your regulator but also your partner, will remain steadfast in promoting an environment where rural banks can flourish and grow. We will keep the communication lines open so we can collectively move the sector forward and truly bring banking services to the countryside. This is something we have committed in the past and this is something I am prepared to commit to the new set of directors and officers.

I would like to end my remarks with a quote from Sir Winston Churchill, "This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning." After tonight's inaugural celebrations and induction, the real work begins.

Congratulations to the outgoing officers and directors for a job well done. Best wishes to the incoming officers and directors. Thank you and a pleasant evening to all.