



Impact of the Liberalization of Foreign Bank Entry on the Rural Banking Sphere

May 2014

- **Investor in ‘rural focused’ banks – only in the Philippines**
- **To create a ‘*network of innovative, dynamic and dedicated banks*’**

Gus Poston

- **Co-founder of Bridge**
- **4 years in the Philippines**

**What we know about the market
... and decisions bank owners need
to make**

Who is Bridge? What do we do?

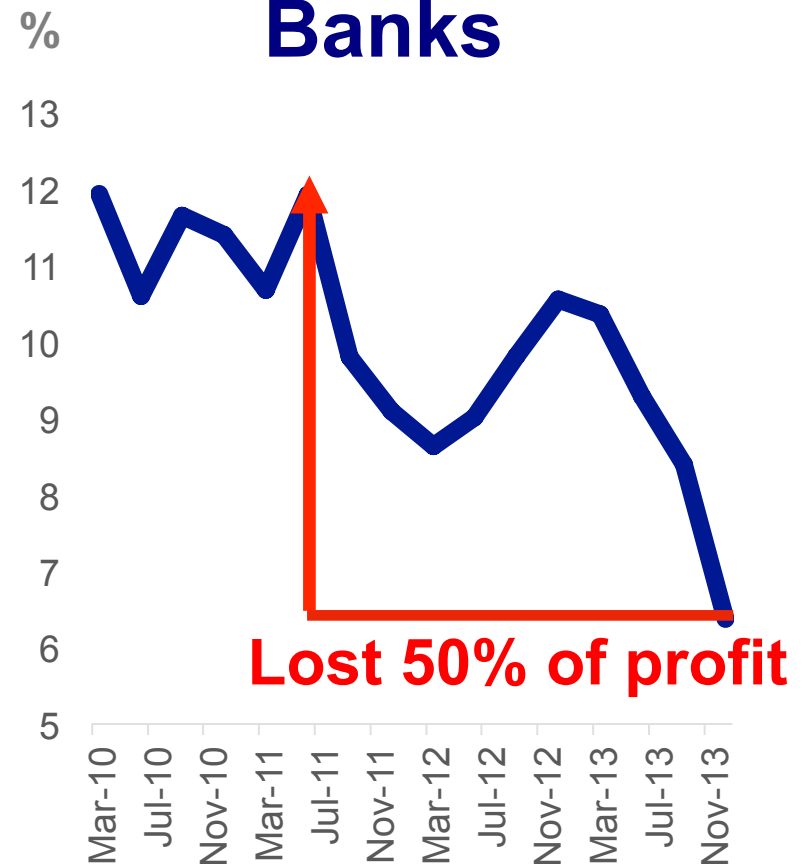
How can we work together?



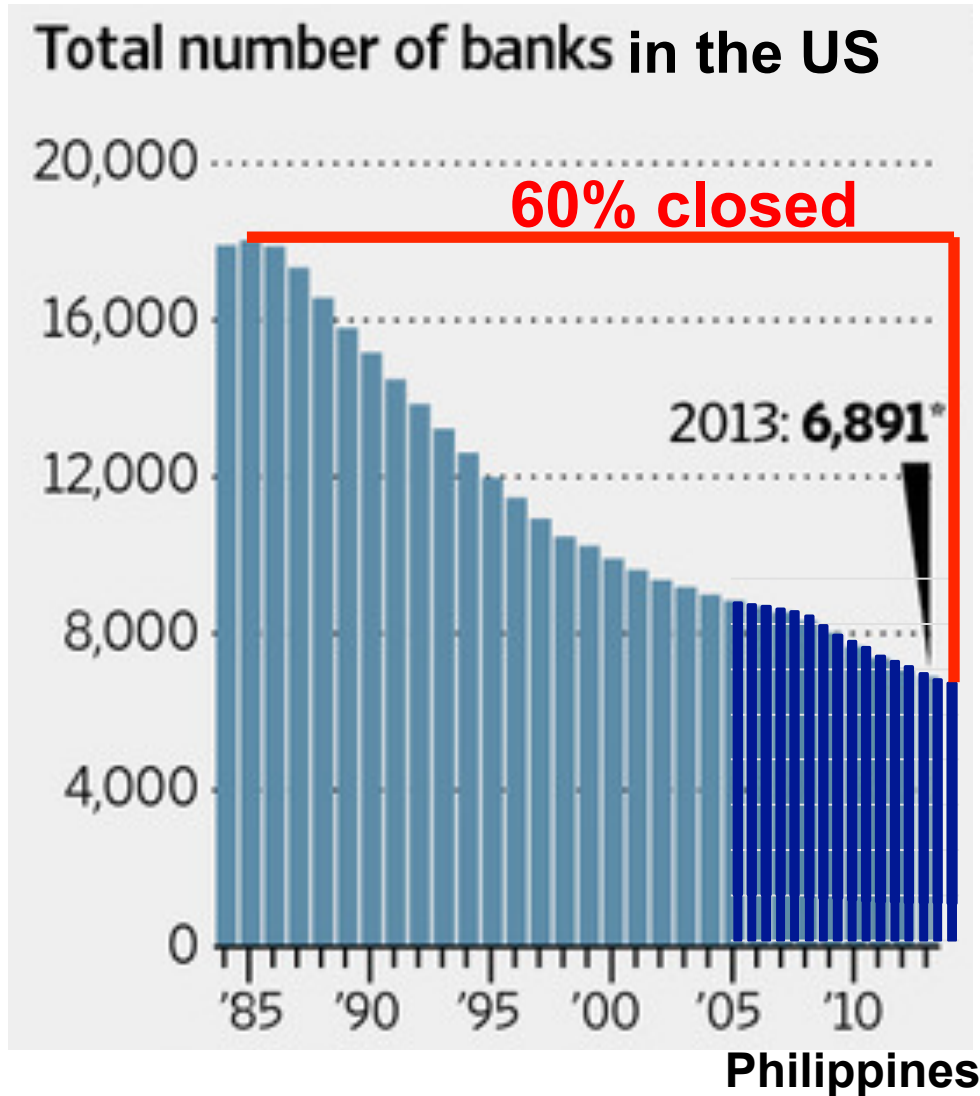
Period of major change

- Lower margins
- Increased competition
- Significantly lower profits (see right)
- 4% of rural banks close per year today (~20 banks)
- In 2010, Rural Bankers predicted 8% (~50) would close per year
- i.e. 100-200 will close in 5 years

Return on equity in Rural Banks



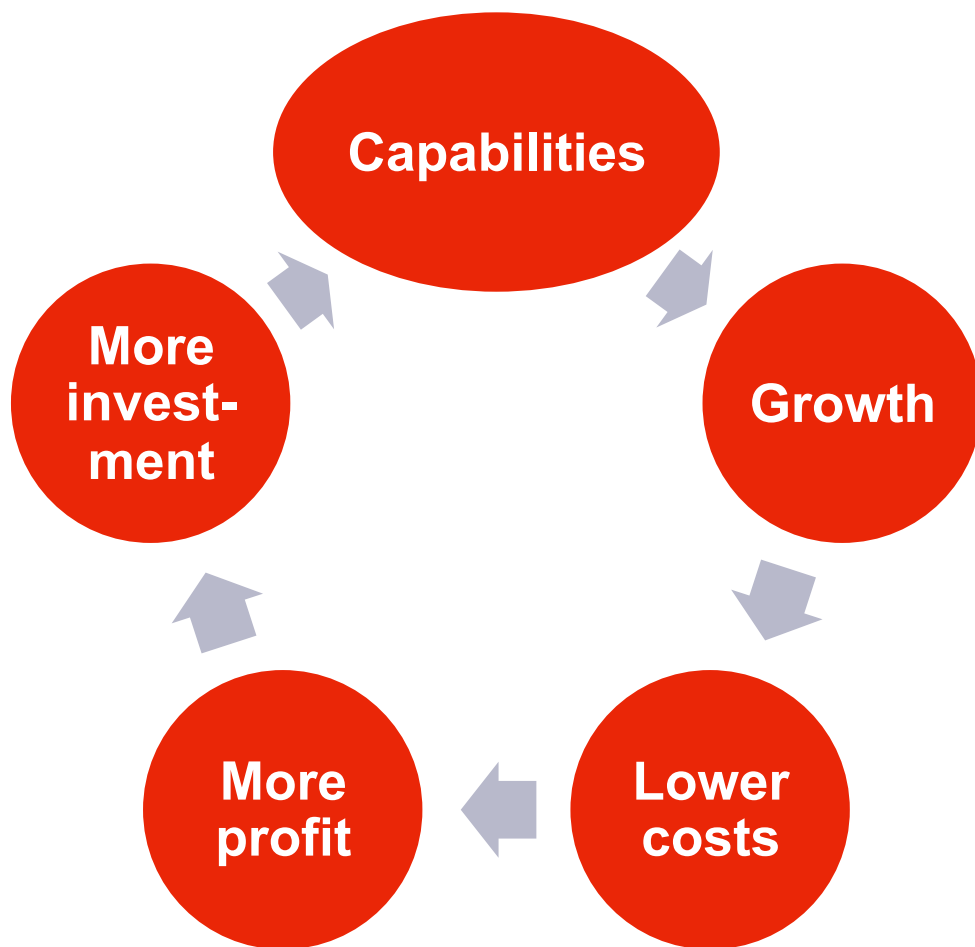
Not only in the Philippines!



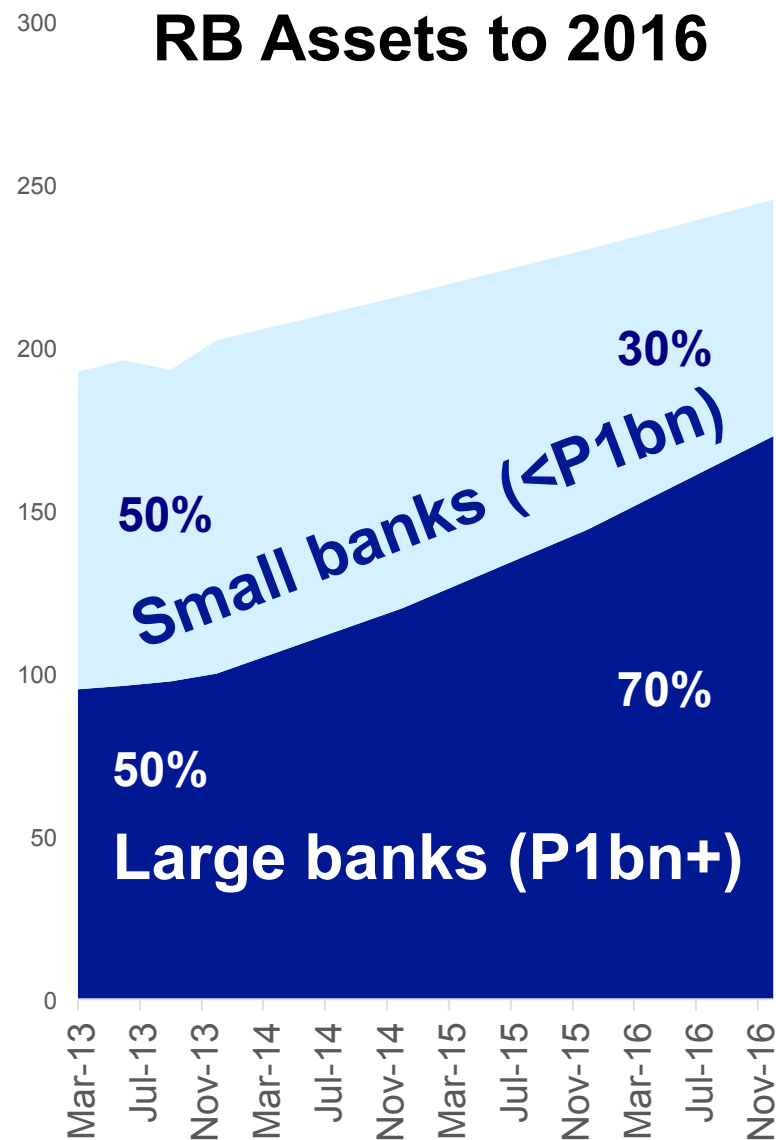
- ~4% of banks close every year in the US
 - Fell for the past 28 years
 - 60% have closed over the past 28 years
- 2008 - 2012: 465 were closed, 644 were merged with other banks

Scale: large banks = 70% in 2016

‘Virtual cycle’ of scale



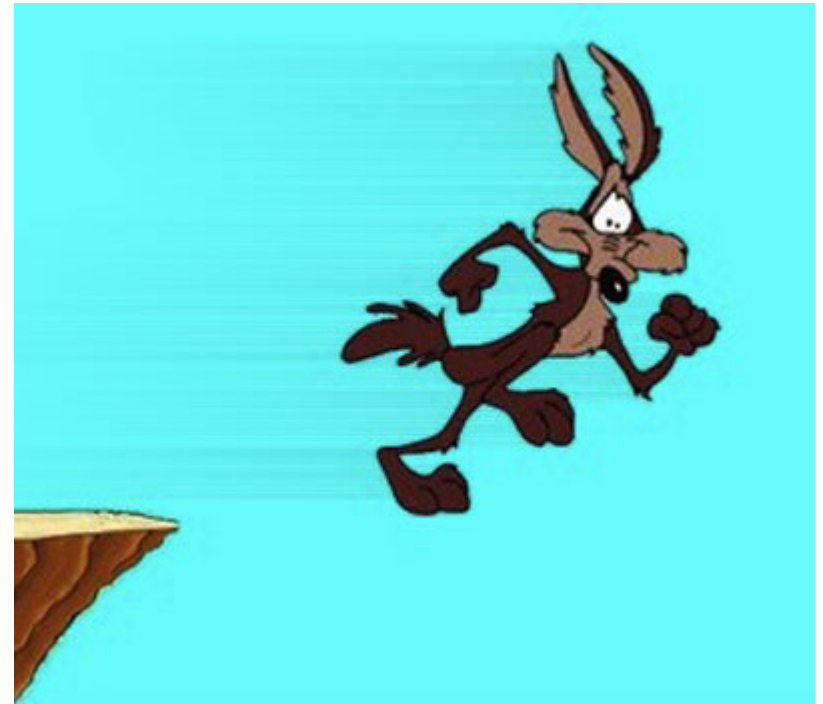
RB Assets to 2016



Many smaller banks will fail

Reasons banks fail

- Owners stay on too long
- Owners with many businesses ignore the bank
- Do not develop product set
- go head-to-head with commercial banks



Take action before it is too late!

Banks that merge will fare better

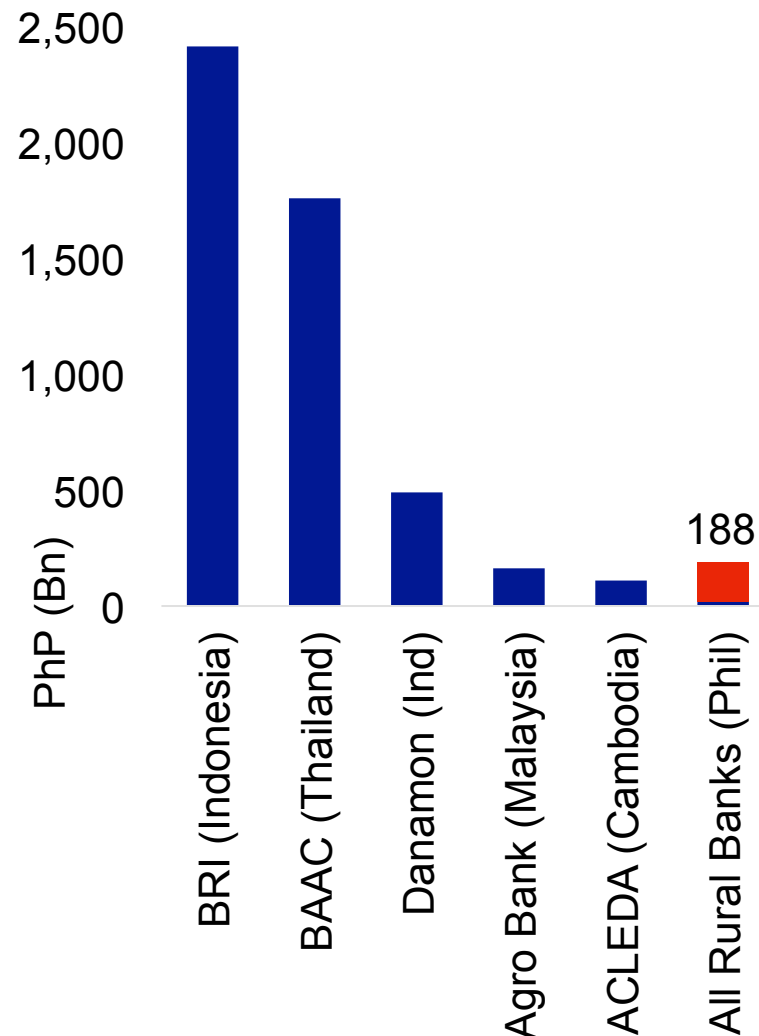


- **Founded in 1640**
 - **Grew through merger with 29 other banks**
 - **... to have assets of \$2,400 Bn (110x the size of BPI)**
- **Founded in 1982**
 - **Result of merger of 16 rural banks in Bohol**
 - **Has grown rapidly.**
 - **65 branches, 20 marketing outlets**
 - **10bn in assets, ~15% growth P/A**

Likely foreign banks will enter

Bank	Business
 Melayani Dengan Setulus Hati	<ul style="list-style-type: none"> Indonesia: 'Village banking' – Agri lending & deposit taking
	<ul style="list-style-type: none"> Thailand: Lending to farmers, insurance, support to Coops
	<ul style="list-style-type: none"> Indonesia: Rural Banking, SMEs, Motorbikes
	<ul style="list-style-type: none"> Malaysia: Rural Banking
	<ul style="list-style-type: none"> Cambodia, Laos, Myanmar: Rural lending, SME lending, deposits

ASEAN Rural Bank Assets



Scale is critical, change accelerating

Question for Rural Bank owners:

1. Do we have the capabilities required to accelerate growth & manage a P5-10bn bank?

2. Will we have enough capital to fund the growth?

**If the answer is “no” to either question:
bank owners need a plan**

What are the options?

‘Go it alone’

- Focus on a ‘niche’ – where there is less competition
- Funds from current owners
- Existing staff for expertise

‘Partner’

- Find a partner with capital and expertise
- Merge with other RBs



‘Sell up’

- Sell to Commercial banks (normally looking for branches)

‘Close’

Benefit of international investor: give owners more options

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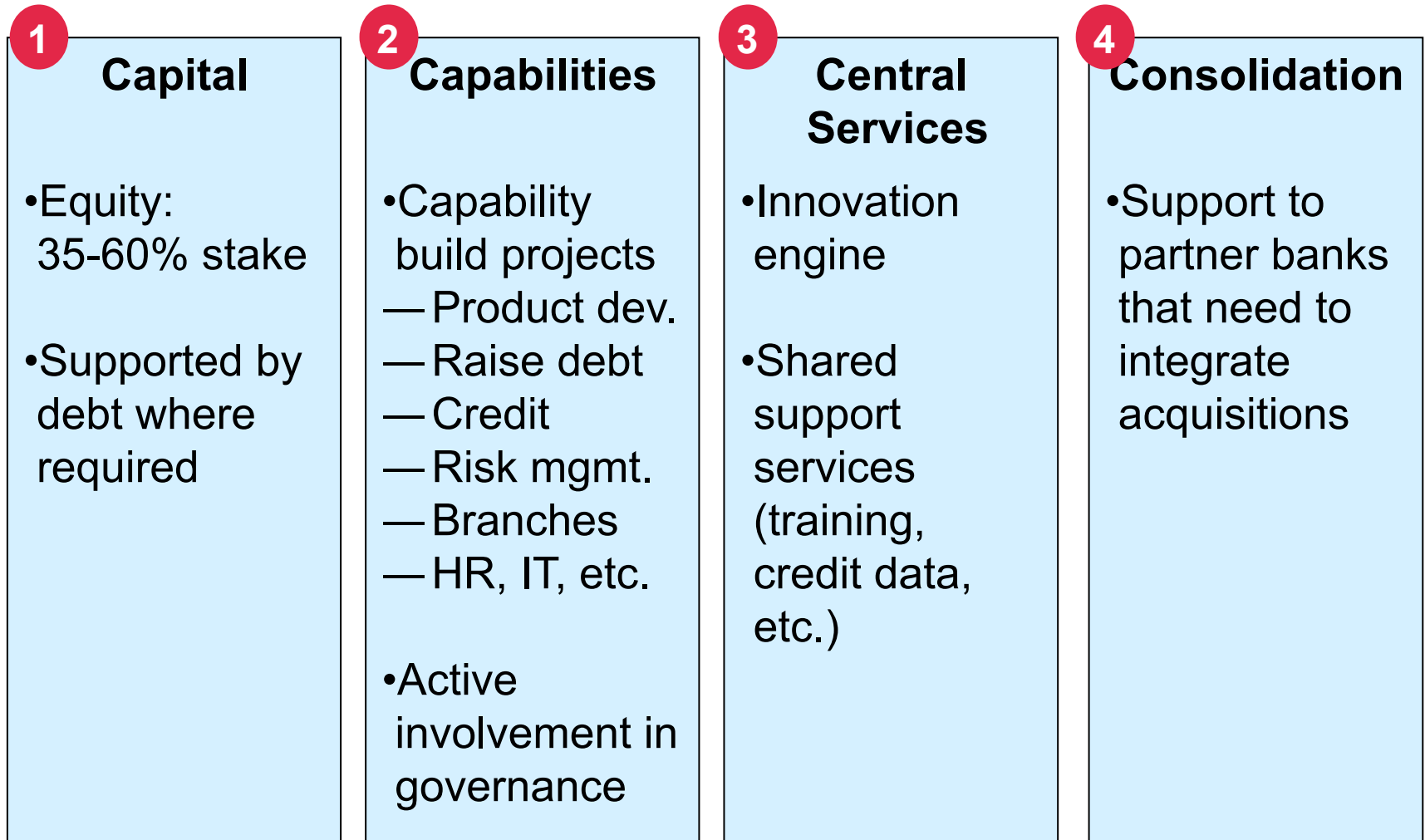
Bridge

Building better banks

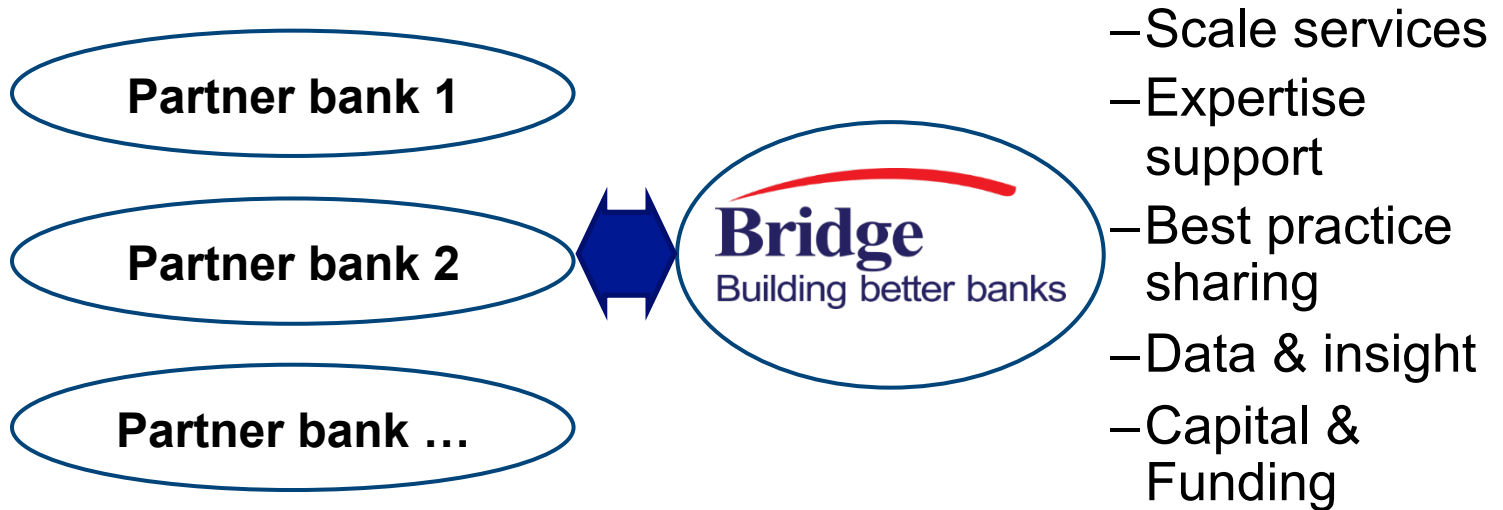
- Network of innovative, dynamic and dedicated rural banks
- Socially motivated investor
- Raised P1bn in 2013
- 100%: Rural and Thrift Banks
- Based in Manila, with team of local experts
- Open to range of investment options



Investment + Capability Building



... building a network



Services best done locally are done by Partner Banks

Services where there are scale benefits are done by Bridge

- Expertise shared across banks
- Lower cost from greater sale

Current position

Company

- Set up in Makati
- 2 x Principals full time + 5 banking expert staff
- Approved as an investor from the BSP

Investments

- First foreign investor in Rural Bank
- 34% in 1st Valley Bank – a Development Bank
- Signed with other banks: awaiting BSP approval
- In detailed discussions with 5 banks
- *Aiming to create partnerships with the 'future leader' Rural Banks*

Started the development program with Partner Banks

- Governance and controls
- Product development
 - Loans
 - Deposit / savings
- Risk management
 - Credit, operations
 - Financial
 - Client protection
- Balance sheet management

Different to a financial investor

	Financial Investor	Bridge: a Strategic Investor
Vision	<ul style="list-style-type: none">• One-off investments	<ul style="list-style-type: none">• Network of cooperating banks
What provided?	<ul style="list-style-type: none">• Capital	<ul style="list-style-type: none">• Capital• + Capability Building
Time to invest	<ul style="list-style-type: none">• 5-7 years	<ul style="list-style-type: none">• Open ended
Min deal size	<ul style="list-style-type: none">• ~\$2m (P100m)	<ul style="list-style-type: none">• 35% stake
Location	<ul style="list-style-type: none">• Europe or US	<ul style="list-style-type: none">• Manila
Time to do a deal	<ul style="list-style-type: none">• Up to 3 years	<ul style="list-style-type: none">• ~3-6 months

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How can we work together?

Option 1: 'Primary Investment'

Your position

- Major bank in your region
 - Appetite for further growth
 - See the need for further skills development / capability building
 - Wish to secure the bank's future as a 'regional champion'
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- Bridge can invest 35% - 60% (newly issued shares or buy existing shares)
 - ... and provides subsidized capability building

Benefits

- Secure access to long-term capital to fund growth
 - More options for current owners to sell shares
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- Dedicated (and subsidized) capability building
 - International expertise
 - Learn from other banks
-
- Existing shares will be worth 1.5-2.5x more in 5 years

Option 2: 'Tuck-in Investment'

Your position

- **Believe the time is right to consider different ownership options**
- **... or different lifestyle options (retire, go to different business)**
- **Bridge + a 'Primary Investment' can buy all (or a large part) of the bank**
- **... and support its development**
- **... either as a separate entity or merged in**

Benefits

- **Releases capital (before bank starts to suffer!)**
- **Sell to a well respected / transparent group**
- **... who will continue the work of the existing owners**
- **Continued support to the local community**
- **And security for employees**
- **Selling sooner will bring a higher price**

Other Options

- Support a group of banks that wish to merge
- Help 'turn-around' a bank that is facing challenges
- Buy out one shareholder
- Help a bank buy other smaller banks (which will later be merged into it)

Steps to an investment

1. Meet to discuss investment structure and your vision for the bank (1 meeting)
2. Agree price, based on current accounts (2nd meeting)
3. Conduct Due Diligence (1 – 2 months)
4. Sign legal agreement & get BSP approval (2-3 months)

Very happy to have a discussion!

Thank you

I am happy to answer any questions



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