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INVESTMENT PROPOSAL
FOR THE
REVOLVING FUND

US$2,000,000 LOAN GUARANTEE FACILITY

ON BEHALF OF

FAR EAST BANK AND TRUST COMPANY
PHILIPPINES

OFFICE OF INVESTMENT
BUREAU FOR PRIVATE ENTERPRISE

JUNE 1988

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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LOAN GUARANTEE FACILITY
FAR EAST BANK AND TRUST COMPANY

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FAR EAST BANK AND TRUST COMPANY

I. EXECUTIVE SUMMARY

The Project

1.01 PRE/I proposes to establish a loan guarantee facility for Far East Bank and Trust Company (FEBTC) totalling $2 million from the Revolving Fund for up to five (5) years for the purpose of stimulating U.S./Philippine trade.

This project will center on loans to private sector SME's importers for the purchase of U.S. goods and services. This proposal has been developed as a co-designed effort with USAID/Manila.

This project represents our continued efforts at institutional building with FEBTC. The proposed follow on project builds on an existing SME exporter facility structured by PRE in 1985 for $2,000,000 on a 50% guaranteed basis with FEBTC. This five-year facility has been fully disbursed and over 250 trade related subloans granted. A project review recently completed by Management Systems International (MSI) had favorable findings on FEBTC as a suitable IFI for PRE activities and encourages follow on projects with IFI's to fortify institutional change, a center PRE goal. Many of their recommendations and findings are quoted in this IP.

Development Benefits

1.02 Effective participation in international trade is essential for meaningful economic growth for developed and developing countries alike. It is the means by which a country makes use of it's comparative advantage to produce goods and services for sale in other countries and by which it purchases at the least cost those things for which such advantage is held by others. Trade both attracts investment and earns profits for the investors.

The ability of the people of developing countries to purchase goods and services efficiently produced in the United States will contribute to their well-being while, at the same time, contribution to U.S. economic growth and employment. Although, A.I.D. is not chartered as U.S. export promotion agency, this mutuality of interest makes it appropriate for A.I.D. and PRE to work with developing countries and other U.S. Government (USG) agencies to increase access of U.S. exporters to LDC markets.

It is, therefore, well within the developmental mandate of the Agency for International Development (A.I.D.) and the Bureau for Private Enterprise (PRE) to assist the people and business entities of client countries to participate more fully and effectively in free and open international trade.

Capitalization

1.03 This project will be 50% capitalized by PRE up to $2 million and matched by FEBTC in an equal amount to create an SME import loan pool of $4 million. (Approximately Pesos 80 million)

Products

1.04 Subloans by FEBTC to Filipino SME's. SME is defined as a productive enterprise having no more than US$1,000,000 equivalent in total assets. Maximum loan size to any one sub-borrower will be US$250,000.

Risk

1.05 The issue of credit approval and security (collateral) of sub-borrowers will be made by FEBTC. However, we expect that collateral requirements for SME loans under our facility will be substantially less than for equal borrowers outside our facility. Our risk centers on:

- Transaction risk (default) by the SME importer.
- Institutional risk (credit and liquidity) in FEBTC.
- Country risk (economic and political) in Philippines.

These risk factors are present in most PRE investments. The risk in dealing with FEBTC is no greater than PRE's risk with other equal IFI. The fact that we have an ongoing relationship with this IFI has enabled us to establish mutual trust.

In addition, PRE will be compensated for it's risk by charging commercially competitive fees for our facility. These charges are:

Loan Guarantee (Peso Lending)

Paid to PRE		On Full Disbursement
Guarantee Fee	1% p.a.	($20,000 per year)
Facility Fee	1/2%flat	($10,000 flat on loan signing)
Paid to U.S. IFI		
SB/LC Fee	1/4 p.a.	($5,000 per year)

Project Timetables - FY 1988

1.06	IP	June
	L/A negotiations	July
	L/A signing	August
	First Disbursement	September

II. TRANSACTION SUMMARY

2.01	Amount	:	US$2,000,000
2.02	Instrument	:	A loan to a U.S. correspondent bank who will issue a standby letter of credit to FEBTC guaranteeing 50 percent of the principal and 90 days past due interest (up to US$2.0MM) of a segregated and maximum US$4.0MM equivalent Peso portfolio of qualifying sub-borrwers. The balance of the credit risk not covered by the standby L/C shall be borne by FEBTC.
2.03	Interest on Collateral Account	:	Equal to the rate on three month T-Bills plus a negotiated spread floating, collected quarterly in arrears from the U.S. correspondent bank.
2.04	Fees	:	(a) Facility Fee: A one-time fee of 1/2 percent flat in U.S. dollars will be charged on the amount of the A.I.D. facility payable upon loan signing. (b) Guarantee Fee: A guarantee fee of 1 percent p.a. payable in U.S. dollars semi-annually in arrears would be charged on all amounts outstanding under the standby L/C.
2.05	Collateral Position	:	Standby L/C agreement will secure the interests of A.I.D. and issuing bank subject to the rights of the beneficiary (FEBTC).

2.06 Disbursement Date : Up to six months after loan execution.

2.07 Qualifying Borrowers : FEBTC will provide financing to small- and medium-scale importers of U.S. goods and services by drawing on the trade finance facilities available to it (IGLF/ALF) or it's own deposits.

The small- and medium-scale firms shall be defined as:

(a) Having total assets not in excess of US$1MM equivalent (including land);

(b) Marketing and manufacturing intermediaries who procure materials from individual firms having total assets not in excess of US$1MM (including land);

(c) Maximum total indebtedness for anyone borrower is US$250,000 or less for tenors of 1 month to three years.

(d) Individual sub-borrowers are permitted to pool their import credits to achieve economics of scale for imports of U.S. commodities where minimum shipments are in excess of U.S.$250,000.

2.08 Reporting Requirements : Sub-borrower and financial reporting according to forms provided by PRE to be submitted on a semi-annual basis.

2.09 Grant : A grant from USAID/Manila and/or PRE for up to $10,000 to be granted specifically for the purchase of a computer software program geared toward cash flow lending and trade finance. This is to be a U.S. source and origin product and approved by PRE as suitable to support this project.

2.10 Maturity : Loan principal amortized over five year term in seven equal semi-annual installments, first installment due 24 months after first disbursement. Amortization schedule of loan shall match reduction of standby letter of credit.

III. THE PARTICIPATING IFI - FEBTC

A. Overview

3.01 Far East Bank and Trust Company was founded in 1960. The prime movers were Mr. David Choa and Mr. Jose Fernandez, the former continues as Executive Vice President and the latter had been C.E.O. during much of the bank's recent growth. Mr. Fernandez is highly respected in the international banking community and his selection in 1984 to be Governor of the Central Bank of the Philippines was considered essential to give credibility to the countries' return to financial stability. He has been succeeded by O.V. Espiritu as President and Chief Executive Officer. FEBTC was the most profitable bank in the Philippines for the last three years. Judged by this, management of the bank continues to be rated as very capable.

The bank offers a full range of domestic and international banking services. Credit services are provided to a variety of industrial sectors including heavy industry, light manufacturing and agro-industry. In the early 1970's the bank expanded its international operations. At that time capital was increased through the equity investments by Chemical Bank, New York, and MITSUI, Tokyo, of 12 percent each. Under the Financial Reforms Act of 1980, Far East Bank and Trust Company became a "unibank" which permitted investment banking in addition to regular commercial banking. Total assets at year end 1987 were US$977MM equivalent. Capital was at 9 percent of total assets with a reserves for losses of 8.0 percent of total loans. This is a sound bank with a strong capital position that is well regarded in the domestic (113 branches) and international community.

B. Shareholders

3.02 Far East Bank and Trust Company ownership is 100% private and widely held including a 12 percent interest by Chemical Bank and a 12 percent interest MITSUI Bank.

C. SME Lending

3.03 As a result of our first guarantee facility with FEBTC for the benefit of SME exporters, the bank established and staffed an SME lending group called "Entrepreneurial

Banking Group" which administers PRE's program. FEBTC has fully disbursed our shared U.S.$4 million pool of credit for SME exporters. In an effort to continue our institutional building process with this IFI we are proposing this follow on project. Our proposed project is for the benefit of SME importers and tied to the purchase of U.S. goods and services. Management at FEBTC is pleased with their current relationship with A.I.D. They are keenly interested in assisting importers and have no problem with the U.S. source and origin restrictions that are a part of this project.

As a result of our two projects shared loans to SME will total approximately 2% of FEBTC total loans and advances. They are estimating their total involvement with SME's as 10% of their business and attribute their enlarged market in this segment to A.I.D. encouragement and influence.

IV. CURRENT PROBLEMS AND CREDIT NEEDS

4.01 In the Philippines, as in most all LDC's, the accessibility of credit is not evenly available. Historically, banks have concentrated their loans in urban areas to larger well established clients. In addition, creditworthiness is for the most part based on the reputation of the principal of the business and on the collateral of the business or personal assets of the principal. This is "asset lending". A situation where loans by a financial institution are secured 100 percent or more by some underlying asset (collateral). SME importers often do not meet these standards. This is due to their size, short business history and limited collateral.

PRE through it's loan guarantee facilities to IFI's has moved local banks to lend more aggressively into rural areas, and to target SME's. This has established that the profit incentive of the IFI's is not at odds with the developmental objectives of A.I.D. In order to accelerate the delivery of credit of SME's "institution-building" within local banks must develop towards understanding small business. Otherwise, the present social structure within LDC's will be perpetrated.

In order to effect a real change in the way credit is extended by banks in developing countries so that loans are granted to those who can repay as opposed to those who have collateral, a change must be effected in the way bank borrowers are evaluated. FEBTC has embarked on such a program in establishing it's "Entrepreneurial Banking Group" under our first PRE guarantee facility. This follow on project will continue to influence FEBTC's lending criteria. Due to it's trade related nature, this project will also require some use of cash flow lending techniques. Our grant for cash flow analytical software will assist here and perhaps lay the foundation for yet another, third generation, project with FEBTC centered solely on cash flow lending.

The key to SME lending is a close familiarity by the lender of the borrower's business. It is essential that the banker know the condition of the inventory and the quality of the receivables so that an accurate evaluation can be made as to when they will or can be converted to cash. This trade related lending, based on a mix of cash flow analysis and collateral is the crux of this IOP.

This project offers PRE a direct approach to introduce trade related lending techniques for the benefit of SME's. It acts as a primer for other trade and investment projects and deals with private financial institutions who are positioned in markets we want to penetrate. It is not redundant to other IFI guarantees as it introduces the trade theme and for the first time ties it to U.S. goods. FEBTC has cooperated with PRE in the past and is eager to expand their relationship with us. It's management has the insight to absorb the benefits this new project offers. By complementing ANE's Trade and Investment theme, we can probe the willingness of IFI's to participate in this area. A laboratory in which to measure the success rate on trade related loans to SME's can be developed. A positive impact on this IFI is expected while PRE assists the USAID in it's targeting of SME lending and trade related activities.

4.02 An additional feature not included in other IFI projects, but requested by numerous banks is to allow the combination of A.I.D.'s guarantee with other non-subsidized multilateral bank funding facilities. IFI's argue that there are numerous risks involved in lending to SME's. The two key areas that restrict lending are:

- Credit Risk - the underlying risk that a borrower will not repay their loan as promised. Under our current guarantee facility structure we cover up to 50% of this risk and the balance is supported by collateral pledged directly with the IFI. As such, this risk factor is considered to be manageable.

- Liability Risk - the mismatch between short-term deposits (one year or less) and long-term loans (one year or more). Since our guarantee facility utilizes local bank liquidity IFI's are not assisted in this area. In addition, SME's require availability of medium term credit (one to three years) under this proposed importer support facility. As such, we have not addressed the funding side of this equation.

Numerous options exist:

- Provide liquidity to the IFI by way of direct US$ loans. FEBTC has declined to accept the foreign exchange risk in borrowing long term US$ and lending long-term Pesos.

- Use an A.I.D. guarantee to mobilize long term Peso deposits. FEBTC states that this would be costly and not competitive with other sources. It would also increase the loan rate passed on to SME's.

- Do nothing. Require that IFI use their own deposit base. FEBTC believes this would lead to short term lending only (under one year) and not support the capital formation needs of SME. In addition, it would lead to all loans being priced at the maximum short term rate, 18 1/2% p.a. versus the maximum long term rate, 17 1/2% p.a. thus costing SME's more to borrow.

All of our Filipino IFI's (FEBTC, Bank of the Philippine Islands, Metro Bank and Philippine Commercial International Bank) have asked that A.I.D. consider allowing a combination of A.I.D. guarantee facility with other Governmental authority and/or aid donor funding (not guarantee) programs where no true subsidy exist. Two such funding programs are:

- Industrial Loan Guarantee Fund (IGLF) - provides a long term (up to 10 years) source of Pesos for on-lending to SME manufacturers outside Metro Manila on a term loan basis at fixed rates of interest.

  Funding Rate: 12 - 13% p.a.
  Loan Rate: 16.5% p.a. (maximum)

The IGLF is funded by the World Bank and administered by the National Economic Development Authority (see Attachment G).

- Agricultural Loan Fund (ALF) - provides a long term source of Pesos for on-lending to SME farmers on a term loan basis (up to 15 years). The ALF is funded by the World Bank and the USAID/Manila. It is administered by the Central Bank of the Philippines (see Attachment G).

Funding Rate: 10 - 13% p.a.
Loan Rate: 16.5% p.a. (maximum)

This project would permit FEBTC company to partially or fully fund loans guaranteed by our facility that are over one year in tenor with long term Pesos sourced from the IGLF or ALF. We see these facilities as complementary to PRE not mutually exclusive. The IFI's state that no funding subsidy exist in the sourcing of long term Pesos from IGLF/ALF. This is due to the fact that rates paid for these deposits are at or about commercial deposit rates. It is the tenor (1 to 15 years) of the placement of funds (deposit) that is sought by the banks. Funding is matched on a time basis to term loans granted to qualified sub-borrowers. The rate of interest charged borrowers is set at a maximum level approximately the same as self-funded loans. It is the availability of funds for longer tenors and the fixed rate of interest that make these funding sources attractive.

Since this will lead to more SME lending at commerciaL but reduced rates to the current situation, PRE concurs with the IFI's that combination of A.I.D.'s guarantee with IGLF/ALF funding is acceptable.

We believe this project has a high level of additionality and likelihood of sustainability. For an IFI project, additionality refers to the extent to which it:

1. Causes loans to be made that would not otherwise have been made, and

2. Causes business expansion that would not otnerwise have been made. We believe this project has this potential.

In addition, this IP reflects additionality at the lender level (FEBTC). Bank practicer reflect a decision on how much risk to take. By having FEBTC accept more risk in SME loans, we have influenced policy. Any change in bank policy is an aspect of additionality.

Sustainability requires that an IFI learn to handle new risks on it's own. FEBTC's establishment of it's "Entrepreneurial Banking Group" reflects the sustainability of our first project with them. This follow on project will open new ground building on earlier experiences and is expected to be sustained after our involvement ends.

V. CONTRIBUTION TO DEVELOPMENT

5.01 A common theme used in all PRE projects is that commercial institutions, particularly IFI's, can be used to achieve development objectives. If development is to be sustained without perpetual donor support, the private sector must become a partner in development. A.I.D. and our client countries' governments should work with private sector partners and design projects that meet both public development goals and private profit requirements.

PRE is looking beyond the immediate effect of any one project to a longer term increase in the capacity of the local private sector in A.I.D. assisted countries. Investment projects attempt to incorporate both direct development impact and institutional change.

Direct Development Objectives. Private investment projects achieve direct development objectives through the effect of credit on the target businesses. Credit should enable businesses to begin or expand production, thus contributing to development indicators such as national income, employment and in some cases foreign exchange earnings (or savings). Expanded production caN have ripple effects that extend to businesses linked to the target business, as suppliers and distributors are linked to manufacturers. When a significant proportion of the owners, employees or suppliers are from low income groups, business expansion also provides income for support of basic human needs. Some businesses produce other development benefits, such as companies producing health-related products, or those that develop or bring new technologies into a country, and these should also be encouraged.

Institutional Change. A.I.D.'s investment projects will normally be a small fraction of total funds available for investment in any country. A.I.D. must therefore use its resources strategically, to maximize long run effects. This means it should use investment projects to bring about institutional change. Through institutional change, A.I.D. can, in effect, leverage the larger pool of private investment resources over a longer period of time. If the strategy succeeds, the development benefits produced by the leveraged funds may far exceed the direct benefits products by A.I.D.'s loan funds. Leverage is used here not in the narrow sense of funds required to be contributed in conjunction with A.I.D. funds, but in the broad sense of funds that A.I.D. influences through demonstration or policy change.

Institutional change can take place at three levels: first, in the financial institution, A.I.D. works with during project implementation; second, in other financial institutions which learn from observation; and third, in the institutions that make financial market policy, such as the central bank, ministry of finance, and others. The intent of each level should be to convince private institutions that they can profitably offer services and credit products that result in greater direct development benefits of the types outlined above than those they ordinarily provide, even after A.I.D. assistance has ended. This may involve credit and services for new target groups, or financial instruments that deepen capital markets, or changes in government policy towards financial markets. 1/

Impact of PRE Participation on USAID Policy Areas

5.02 PRE participation in this proposal will provide a positive impact in five key USAID policy areas: trade and investment, private sector development, institution building, basic human needs and policy dialogue.

- Trade and investment. Trade is a vital part of development and leads to investment which fuels economic advancement. This project will enable SME's not otherwise participating in this process to play an enlarged role. This is in keeping with ANE goals and could be a model for future USAID PL 480 or CIP programs.

- Private sector development will be promoted by providing term financing for SME importers, many of whom are also exporters, for capital equipment importation. Use of market rates on loans and promotion of both rural and urban firms is in accord with GOP objectives.

1/ Paraphased from MSI's draft of "Guidelines for Working with Commercial Financial Institutions".

- Institution building within FEBTC will be advanced by this second generation project utilizing lessons learned from our first project and cementing this IFI's commitment to SME's through their "Entrepreneurial Banking Group".

- Basic human needs. Job creation within SME's, the bulk of which are rural, should accrue as these trading businesses receive the required long term capital needed for expansion.

- Policy dialogue fits well with the USAID private enterprise promotion and small- and medium-size enterprise development objectives.

B. Relationship to the CDSS

5.03 This project conforms with the priorities of the USAID CDSS particularly as it concerns development through non-governmental entities.

C. Relation to PRE Objectives and Policies

5.04 PRE's objective is to meet the Basic Human Needs mandate of the Foreign Assistance Act of 1961, as amended, using self-sustaining private sector vehicles. In addition, PRE utilizes a variety of operating policies for its Revolving Fund investments to ensure high development and secure financial returns. The Far East Bank and Trust Company Credit project satisfies both. The proposed investment is responsive to the Basic Human Needs mandate by targeting it's resources towards the small enterprise sector. This sector is typically the most disadvantaged, especially in the area of credit. Without credit, the employment generation potential of small businesses is stifled. This project will mobilize US$4.0MM equivalent in credit on a self-sustaining basis. This credit will be a net addition to the investment resources available to this sector.

The project also meets PRE guidelines for management of Revolving Fund investments. These are as follows:

- Has a Demonstration Effect by encouraging FEBTC to continue to downstream credit and mobilizing alternatives to public sector, subsidized credit.

- Exhibits Financial Viability based on a backdrop of effective demand, proven management, and focused marketing illustrated by our earlier project with FEBTC.

- Targets Development Impacts Appropriate to the Philippines by responding to identified constraints on capital expansion within SME's.

- Makes Resources Available to the Small and Medium-size Enterprise Sector by leveraging the PRE facility to create a pool of credit.

In addition, this facility meets PRE's project-specific constraints, (a) the facility does not exceed US$3,000,000 (the proposed amount is US$2,000,000); (b) the facility is not over 50 percent of project capitalization; and, (c) the facility is at market interest rates.

VI. MONITORING

6.01 Project monitoring will consist of: (a) reports on loan and financial performance; and (b) adherence to SME development covenants. Both (a) and (b) will be done on a semi-annual basis based on debt service schedules and reporting requirements of loans made by FEBTC.

6.02 Reporting on the project will consist of quarterly reporting by borrower of data describing borrower population by size, product, and estimated increased sales, employment, etc. as a result of financing. A reporting form prepared by PRE is included in the annex (see attachment E). These type of data are not similar to data typically collected by Banks but will largely be the empirical basis on which the evaluation is performed. Augmenting periodic reports will be ongoing discussions by PRE/USAID staff with the IFI concerning implementation issues.

6.03 Responsibility for project monitoring will reside with AID/PRE/W but will also involve other personnel as required (see X.: Human Resources).

VII. EVALUATION

7.01 The evaluation of this follow on project will be conducted in the Philippines by A.I.D./PRE. It will be based on a review approximately one year following full disbursement of the loan funds to determine: the project's success toward achieving its objectives; potential for replicability to other A.I.D.-assisted countries; and to provide guidance to AID/PRE and the IFI allowing for adjustments in project design and implementation, if necessary. An end-of-project review will be conducted only if A.I.D. determines it is necessary. A grant will be provided by A.I.D./PRE to perform the evaluation.

7.02 The semi-annual reporting requirements by the bank to A.I.D. will provide baseline data for the evaluation in the following areas: (1) employment generation; (2) foreign exchange generation; (3) management and technical skills development; (4) technology transfer; (5) collateral levels and (6) increased income and economic activity as a result of this project.

VIII. PROPOSED TIMETABLE

IP	:	June 1988
Authorization	:	August 1988
Loan Execution	:	August 1988
First Disbursement	:	September 1988

IX. LOAN GUARANTEE FACILITY PROCEDURES

9.01 A US$2,000,000 PRE loan to a U.S. bank who will then issue a standby L/C to FEBTC. A.I.D. will receive an effective security position in the bank's interest as issuer of standby L/C.

9.02 Interest paid on the PRE loan will be tied to yield on 90-day U.S. Treasury Bills plus a negotiated spread.

9.03 PRE anticipated multiple disbursing of loan proceeds of at least US$250,000 each. Justification for disbursement in several small portions is to move the credit to SME's as soon as possible and provide our guarantee quickly to FEBTC as an incentive to fully drawn on our facility as early as possible.

9.04 Target disbursement date will be one month after loan execution.

X. HUMAN RESOURCES

10.01 This section has been added to cover project design areas and specifically address the human resources necessary to insure this project's success and maintenance of PRE's overall portfolio in the Philippines.

10.02 Numerous areas of project management are in place and recommendations for others follow.

In place

- PRE/I Investment Officer Asia will be in monthly contact with the USAID and quarterly contact with the IFI. Semi-annual TDY visits are planned for FY 1989.

- USAID/Manila, on an as available basis, will continue to backstop PRE/I on project related matters.

Recommended

- PRE/PD is recommended to provide a speaker on the issues of trade and investment and/or cash flow lending as part of this project. Up to $5,000 from core funds and/or "buy-ins" from USAID/Manila could be used for this one week consultancy. It is believed that once our facility reaches 50% disbursement that such a speaker could fuel interest among other IFI's to follow FEBTC's activities and encourage FEBTC to consider a third generation project solely on the basis of cash flow lending.

- PRE or PRE/USAID funded private sector PSC person for placement on the Mission staff in Manila. A local hire is envisioned to support clerical requirements of our current portfolio which with this project will be our largest country concentration.

Far East Bank #1		$ 2,000,000
Bank of the Philippine Islands		$ 2,400,000
PCI Bank		$ 2,400,000
Metro Bank		$ 2,100,000
	Sub-Total	$ 8,900,000
Far East Bank #2		$ 2,000,000
	Total	$10,900,000

This is within our portfolio country cap of 20% (total Revolving Fund $60M divided by $10.9M equals 18%).

ATTACHMENTS

A. Comparative Financial Statement Data and Ratio Analysis - 1986

B. Risk Analysis - FEBTC - 1987
Securities Ratings - Chemical Bank 1987
Mitsui Bank - 1987

C. Trade Data - Philippines

D. MSI Evaluation Report - FEBTC #1 - 1988

E. Sub-borrower Information Sheet

F. Loan Loss History - FEBTC #1

G. IGLF and ALF Primers (available upon request)

Attachment A

Comparative Financial Statement Data
and Ratio Analysis - 1986

<u>Assets and Liabilities of the Philippine System - 1986</u> (1987 data will be obtained as soon as available)

As of the end of December 1986, the total assets of the Philippine Financial System amounted to $775 billion. This represents an increase of $21 billion or 2.8% over the corresponding December 1985 figure of $754 billion. The consolidated assets and liabilities of the Philippine Financial System as of December 1986 and 1985 by type of institutions are as follows:

Assets and Liabilities of the Philippine Financial System
As of December 1986 and 1985
(In Million Pesos)

	December 1986	December 1985	% Increase/ (Decrease)
Monetary Authorities	$313,892.0	$251,611.9	24.8%
Commercial Banks 3/	292,740.5	283,347.1	3.3
Thrift Banks 1/	17,652.3	15,081.3	17.0
Specialized Government Banks 2/	28,555.7	87,989.4	(67.5)
Rural Banks	9,350.5	8,821.7	6.0
Nonbank Financial Institutions	112,998.3	107,259.3	5.4
Total	$775,189.3	$754.110.7	2.8%

Source: Central Bank of the Philippines.

Notes: 1. Thrift banks include savings banks, private development banks, and stock savings and loan associations.

2. These are the Development Bank of the Philippines, the Land Bank of the Philippines, and the Philippine Amanah Bank.

3. The figures shown here may not tally with the other tables due to eliminations made during consolidations.

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Commercial Banks

Commercial banks dominate the banking and finance network. As of the end of December 1986, the 30 commercial banks had total assets of $244.4 billion. This represents a decrease of 14.4% or $41.2 billion from the previous year. Twenty-six (26) of the thirty (30) banks are domestic and four (4)are foreign.

The loan portfolio of most commercial banks is still slanted in favor of the short-term market, but nine (9) banks are now operating as unibanks and are expected to lead in large-scale, long-term financing. Among other things, unibanks can engage in equity financing, underwrite securities, and enter into nonallied undertakings. Meanwhile, funds for small, pioneering enterprises are made available through the Venture Capital Corporations (VCCs) of commercial banks.

A stronger banking system will remain a major concern of government policies during the rest of the eighties. Thus, the formulation of strong, large, and well-managed banking units will be encouraged.

Banking

The banking sector experienced a series of structural adjustments during 1986 as the government pursued a rationalization program of the financial system. The reform of the government-owned banks was one of the significant developments during the year. The Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP) were both trimmed down in size and scope of operation with their non-performing assets transferred to the Asset Privatization Trust for disposal to the private sector.

At the same time, the government took steps to privatize a number of banks which it had acquired from the private sector. First to go was the International Corporate Bank. The National Development Corporation sold its 40% share holdings in the bank to the American Express Bank. Three other banks, Associated Bank, Union Bank and Philippines Bank were also sold.

In 1986 banks enjoyed positions of high liquidity. This resulted from the weak demand for loans from businessmen, who despite the decline in interest rates, hesitated to venture into expansion on new projects in view of the low market demand and what they perceived a still touchy political situation. Banks invested their excess funds in government securities although these, particularly Treasury Bills, were no longer as lucrative as they had been during the 1984-85 period when monetary authorities were mopping up excess liquidity to contain inflation. Interest rates for one-year Treasury Bills dropped to 13% while shorter term notes yielded below 9%. The rates on Central Bank bills also dropped significantly, and starting October 20, monetary authorities suspended their issuance in compliance with their commitment to the IMF.

As a result of the credit expansion thrust of the Central Bank, the margins for banks narrowed substantially. In the foreign exchange market, the slowdown in imports minimized or prevented altogether speculation on a possible devaluation.

Most major commercial banks consequently shifted their attention to consumer banking in a bid to stretch shrinking margins. They started to offer services which were not possible during the crisis years because of the record-high interest rates prevailing then.

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A STUDY OF COMMERCIAL BANKS IN THE PHILIPPINES
COMPARATIVE STATEMENTS OF CONDITION - INDIVIDUAL BANKS
DECEMBER 31, 1986
(IN MILLION PESOS)

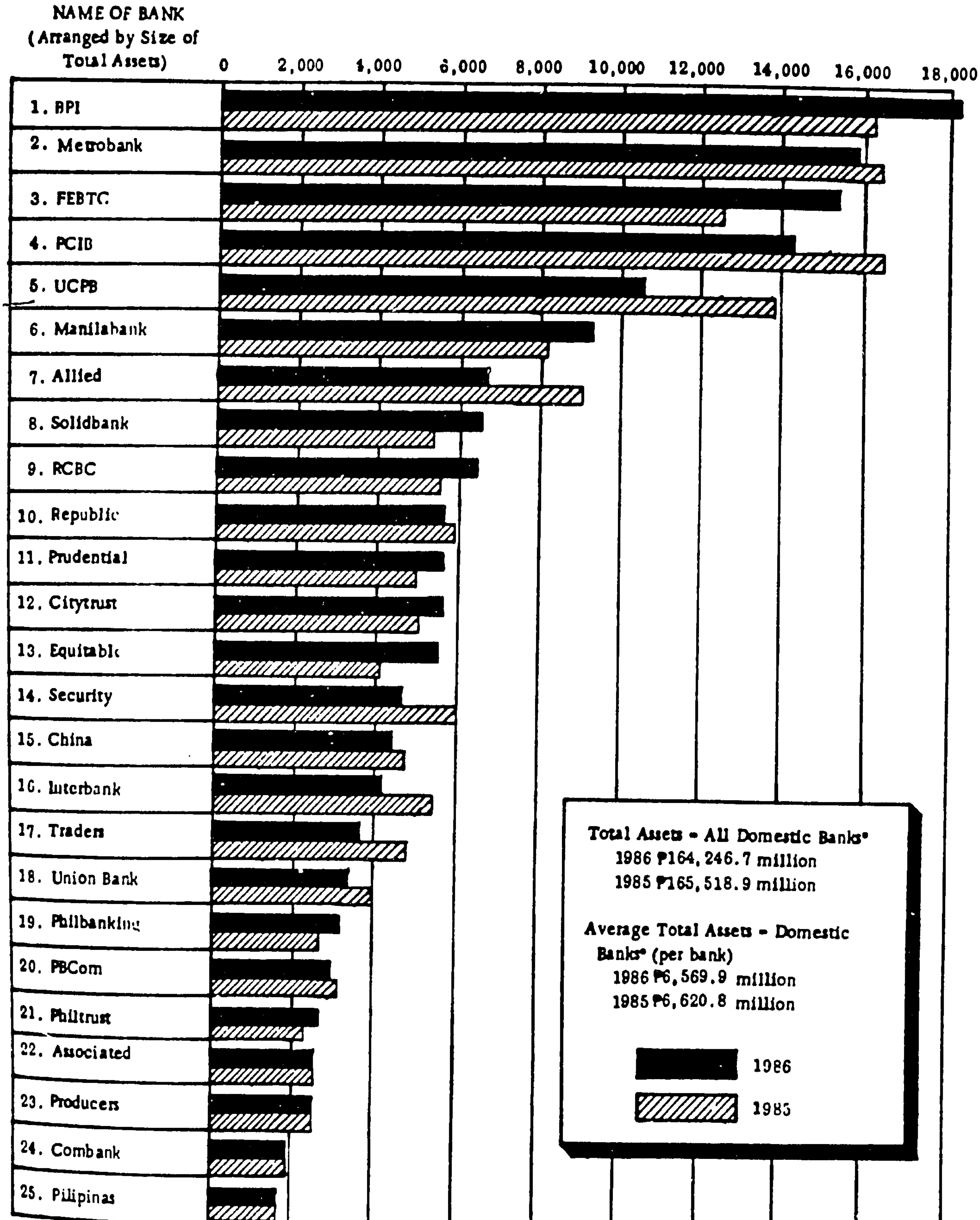
ASSETS	DOMESTIC BANKS			
	FEBTC	BPI	PCIB	METROBANK
CASH ON HAND	₱ 356.3	₱ 350.4	₱ 284.5	₱ 583.4
CHECKS AND OTHER CASH ITEMS	23.3	11.6	8.6	94.4
DUE FROM THE CENTRAL BANK OF THE PHILIPPINES	2,588.4	2,386.9	1,152.8	1,945.2
DUE FROM OTHER BANKS	2,878.7	2,488.8	1,993.9	2,594.7
INTERBANK CALL LOANS RECEIVABLE	20.0	120.0	50.0	284.6
LOANS AND DISCOUNTS - NET	3,626.5	5,512.4	4,838.2	4,834.1
AGRARIAN REFORM/AGRICULTURAL CREDIT LOANS - PD 717 NET	789.1	717.2	515.5	389.5
BILLS PURCHASED - NET	540.6	389.6	762.3	585.2
CUSTOMERS' LIABILITY ON DRAFTS AND LC	269.8	170.5	401.6	598.8
CUSTOMERS' LIABILITY ACCEPTANCES	55.3	26.2	358.6	100.9
TRADING ACCOUNT SECURITIES	2,481.1	2,419.9	829.9	1,751.9
INVESTMENTS IN BONDS AND OTHER DEBT INSTRUMENTS	474.2	1,416.5	867.9	410.4
EQUITY INVESTMENTS IN ALLIED UNDERTAKINGS/AFFILIATES	28.6	461.2	162.0	284.9
DUE FROM HEAD OFFICE, BRANCHES AND AGENCIES	-	-	-	-
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT -	397.9	610.7	492.8	394.6
REAL AND OTHER PROPERTIES OWNED OR ACQUIRED - NET	65.1	325.5	334.4	179.9
OTHER ASSETS - NET	834.8	925.7	1,215.9	910.3
TOTAL ASSETS	₱ 15,429.7	₱ 18,333.1	₱ 14,268.9	₱ 15,942.8

BASIS: STATEMENT OF CONDITION PUBLISHED IN LOCAL NEWSPAPERS.

A STUDY OF COMMERCIAL BANKS IN THE PHILIPPINES
COMPARATIVE STATEMENTS OF CONDITION - INDIVIDUAL BANKS
DECEMBER 31, 1986
(IN MILLION PESOS)

LIABILITIES	DOMESTIC BANKS			
	FEBTC	BPI	PCIB	METROBANK
TOTAL DEPOSITS	₱ 11,275.5	₱ 14,630.6	₱ 10,338.9	₱ 12,461.5
TIME CERTIFICATE OF DEPOSITS - SPECIAL FINANCING	6.3	55.4	65.6	196.2
DUE TO THE CENTRAL BANK OF THE PHILIPPINES	283.2	99.7	22.2	81.9
DUE TO THE TREASURER OF THE PHILIPPINES	0.6	3.4	4.6	0.6
DUE TO LOCAL BANKS	1.1	3.2	47.0	7.8
DUE TO FOREIGN BANKS	-	355.3	1.4	286.1
DUE TO HEAD OFFICE, BRANCHES AND AGENCIES	-	-	-	-
TREASURERS'/CASHIERS'/MANAGERS' AND GIFT CHECKS	91.5	116.2	209.8	159.9
OUTSTANDING ACCEPTANCES	55.3	26.0	367.7	100.9
BILLS PAYABLE	1,342.9	541.3	771.2	717.4
MARGINAL DEPOSITS	128.3	66.3	177.4	469.1
SPECIAL TIME DEPOSITS	14.9	-	22.8	5.8
ACCRUED TAXES AND OTHER EXPENSES	62.2	196.8	132.9	60.7
UNEARNED INCOME AND OTHER DEFERRED CREDITS	33.4	63.2	50.8	97.6
OTHER LIABILITIES	680.5	772.8	964.9	402.5
TOTAL LIABILITIES	13,975.7	16,930.2	13,177.2	15,048.0
CAPITAL STOCK	220.1	810.1	629.0	558.0
SURPLUS	1,058.1	510.8	3.1	50.0
SURPLUS RESERVES	-	82.0	99.0	6.9
UNDIVIDED PROFITS	175.8	-	360.6	279.9
TOTAL CAPITAL AND SURPLUS	1,454.0	1,402.9	1,091.7	894.8
TOTAL LIABILITIES AND CAPITAL	₱ 15,429.7	₱ 18,333.1	₱ 14,268.9	₱ 15,942.8

TOTAL ASSETS - DOMESTIC BANKS*
DECEMBER 31, 1986 AND 1985
(IN MILLION PESOS)



*Excluding PNB.

Basis: Statements of condition published in local newspapers.

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Attachment B

Risk Analysis - FEBTC 1987

and

Security Ratings - Chemical Bank - 1987
Mitsui Bank - 1987

The issues of credit approval and security (collateral) of sub-borrowers will be addressed by FEBTC on a commercial basis. PRE's risk center on:

- Transaction risk (default) by SME importers of U.S. goods and services. Based on our first project with FEBTC for the benefit of SME exporters, losses were within the 5% of outstanding estimated at inception of the Revolving Fund (see attachment F). As such we believe the risk in this project for importers will be no higher than our earlier project.

- Institutional risk (credit and liquidity) in FEBTC. As the most profitable bank in the Philippines for the last three years (1985 through 1987) this institution has proven it's management can do well in good times and in bad. As the second largest bank in terms of assets this institution has depth to address the changes and uncertainties that will impact it's industry. As a result, risk of failure of this bank is very low.

- Country risk (economic and political) in the Philippines is the area of greatest risk. However, as an A.I.D.-assisted country it is our mandate to work with these risks. Unforeseen political change could cause a negative economic reaction which could impact FEBTC and/or our sub-borrowers. Nevertheless, having weathered the turmoil of 1986 we believe the changes of the future will be managed by the Filipino people equally as well and do not represent a block to the approval of this project.

FEBTC has had an exceptional performance over the last three years (see chart attached). Its 1987 consolidated after-tax net profit was up by 22.33% over the previous year. Gross earnings during the year reflected a growth rate of 12.7%.

At the end of 1987 FEBTC was the second largest private domestic commercial bank in the country in terms of total assets as a result of a 24% increase during the year. Return on average equity amounted to 23.4% unchanged from 1986.

Management said the growth in resources was the result of the opening of more rural branches during the year and the expanded services offered to its clients as a "unibank". With the second highest net worth (capital base) FEBTC is on solid ground for continued future growth.

Ten - Year Financial Highlights
In Thousand Pesos

FAR EAST BANK AND TRUST COMPANY 1/

	1987	1986	1985
Total Resources	19,543,774	15,722,471	12,707,124
Loans and Other Advances	8,152,576	5,496,441	4,447,302
Cash, Cash Items and Due from Banks	6,160,408	5,902,192	5,434,144
Investments	3,663,959	3,073,632	1,683,593
Other Assets	1,566,831	1,250,206	1,142,085
Deposit Liabilities	15,351,061	11,734,047	8,561,253
Demand Deposits	1,068,985	680,637	432,790
Savings Deposits	7,997,154	6,645,810	3,498,097
Time Deposits	5,829,210	4,263,381	4,536,365
Special Time/Guaranty Deposits	455,712	144,219	94,001
Stockholders' Equity	1,788,697	1,460,628	1,202,097
Paid-in Capital	281,434	281,434	281,434
Surplus	1,213,698	996,698	750,698
Undivided Profits	293,565	182,496	169,965
Gross Income	1,969,770	1,748,233	1,912,867
Interest on Loans and Advances	1,099,668	899,051	957,897
Interest on Government and Other Securities	299,507	358,295	467,600
Commissions, Exchange Gains and Charges	355,116	397,880	402,379
Trading Gain	111,229	26,947	36,441
Other Earnings	104,250	66,060	48,550
Total Expenses	1,588,325	1,436,141	1,622,604
Interest and Other Charges	876,000	887,712	948,206
Staff Expenses	261,039	187,674	153,694
Occupancy and Equipment Expenses	145,506	102,146	72,003
Taxes and Licenses (Incl. Income Tax)	83,860	78,703	83,218
Other Expenses	221,920	179,906	365,483
Net Income	380,888	311,350	290,069
Cash Dividends	52,819	52,819	46,217
Retained in Business	328,069	258,531	243,852

1/ Pesos 20/US$1.00

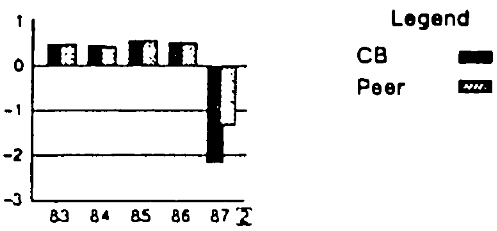
Ratings

Category	Moody's Rating
Bank Deposits	
Long-term	A2
Short-term	P-1
Parent - Chemical New York Corporation	
Senior	Baa1
Subordinated	Baa2
Commercial Paper	P-2

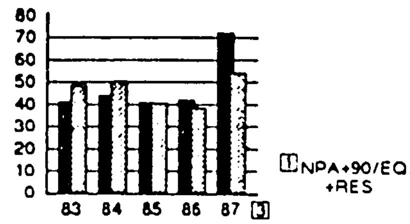
Contacts

Analyst	Phone
Roger B. Arner	(212) 553-1653
Christopher T. Mahoney	

Return On Assets



Asset Quality [1]



Operating Statistics

Chemical Bank
[4] Peer Group Median

	[2] 1987		1986		1985		1984		1983		CAGR/Avg.	
ROA(%incls SLOCs)	-1.32	-2.16	0.51	0.53	0.57	0.57	0.44	0.47	0.48	0.48	0.48	0.49
ROE(%)	-27.82	-61.11	11.44	11.89	12.43	13.34	10.74	12.44	12.35	13.98	11.88	12.87
NI Margin(%)	3.13	3.40	3.50	4.13	3.67	3.96	3.31	3.72	3.19	3.26	3.37	3.71
Net ch.-off/Ln (%)	0.63	0.88	0.89	0.92	0.62	0.46	0.56	0.30	0.43	0.32	0.58	0.45
Bank NI/Consol (%)	99.2	98.7	77.9	83.3	83.6	90.1	87.3	84.2	86.8	86.8	85.2	86.5

Balance Sheet Statistics

Chemical Bank
[4] Peer Group Median

	[3] 1987		1986		1985		1984		1983		CAGR/Avg.	
Assets ($bil.)	43.1	62.1	43.4	58.4	44.9	55.5	40.2	51.2	40.1	49.3	[5]	5.31
Eq+Rs/Lns+SLOC	8.77	7.52	8.01	8.01	7.66	7.37	7.01	6.80	6.77	5.98	7.19	6.83
Res/Loans(%)	4.56	4.46	1.82	1.72	1.63	1.46	1.22	1.22	1.11	1.11	1.36	1.30
NPA/Lns+OREO	4.98	6.54	3.66	4.04	3.66	3.66	4.06	3.74	3.83	3.07	—	—
Net Pch. Fund Rel	58.02	45.19	59.28	50.25	62.24	55.43	59.48	59.48	59.88	57.84	61.31	57.74
Bk Asst/Consol.(%)	84.2	79.6	86.5	96.5	84.8	97.4	87.9	98.1	90.5	96.4	89.2	97.2

[2] For the nine months ended September 30. [3] As of September 30. [4] Bank's peer group is based on total assets
[5] Compound annual growth rate

Opinion

In February 1988, Moody's lowered the rating of Chemical Bank for long-term deposit obligations from Aa3 to A2 and confirmed the bank's rating for short-term deposit obligations at Prime-1. The long-term rating was adjusted because of concerns regarding the magnitude of the bank's LDC exposure in relation to its capital base. The deterioration of the condition of LDC borrowers places added pressure on Chemical Bank and its parent, Chemical New York Corporation (CNYC), as the parent company restructures its operations and acts to turn around Texas Commerce Bankshares (acquired in 1987).

Financial indicators for the bank are close to peer averages. Returns and margins have deteriorated slightly, and charge-offs and nonperforming loan levels continue at historically high levels, even when nonperforming assets are adjusted for the bank's conservative classification policies. In particular, charge-offs in the real estate and wholesale loan categories and nonperforming loans in the commercial and industrial loan portfolios have increased. Reliance on purchased funds has decreased. The bank's tangible net worth is below the prospective regulatory minimum and would appear to be inadequate were the bank to be called upon to recognize further LDC-related losses.

Finally, the stress on the parent company in assimilating a distressed Texas Commerce will somewhat increase demands upon Chemical Bank, as it is called upon to build its own capital base and to provide dividends to CNYC.

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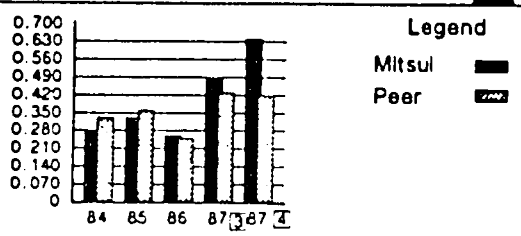
Ratings

Category	Moody's Rating
Bank Deposits	
Long-term	—
Short-term	P-1
Long-term Debt	
Senior	—
Subordinated	—
Commercial Paper	P-1

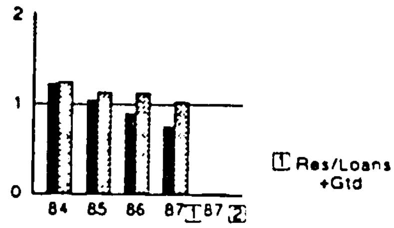
Contacts

Analyst	Phone
Masaru Kakutani	(212) 553-1653

Return On Assets



Reserve Position [1]



Operating Statistics

Mitsui Bank, Ltd.
[1] Peer Group Median

	[4] 1987		[3] 1987		1986		1985		1984		[5] 5Yr. CAGR/Avg.	
[2] ROA (Eigyo Rieki)	0.42	0.64	0.43	0.48	0.29	0.26	0.25	0.26	0.36	0.33	0.33	0.32
ROE (Eigyo Rieki)	21.55	33.69	21.52	25.34	15.02	13.62	13.49	13.68	17.47	17.71	16.71	17.17
Int Cap Growth	N.A.	N.A.	9.21	10.47	6.66	7.22	6.43	7.23	7.36	9.95	7.26	8.54
Net Overhead	N.A.	N.A.	69.43	63.32	76.94	76.48	78.64	76.34	75.50	73.01	75.22	72.26

[1] Peer Group = Bank of Tokyo, Daiwa Bank Ltd., Hokkaido Takushoku Bank Ltd., Kyowa Bank Ltd., Mitsui Bank Ltd., Saitama Bk. Ltd., Taiyo Kobe Bk. Ltd., Tokai Bk. Ltd [2] Eigyo Rieki = Operating profit before security transactions [3] Fiscal year ending March 31 [4] As of September 30, annualized [5] 1983 to 1987

Balance Sheet Statistics

Mitsui Bank, Ltd.
Peer Group Median

	[1] 1987		[2] 1987		1986		1985		1984		5Yr. CAGR/Avg.	
Assets (¥ tril.)	16.75	24.8	15.6	23.9	14.4	20.4	13.4	19.7	11.4	17.6	9.97	8.19
Equity (¥ bil.)	326	450	308	422	253	369	225	344	214	321	9.91	10.54
Equity / Assets (%)	2.09	1.94	1.86	1.88	1.92	1.93	1.84	1.86	1.94	1.94	1.89	1.88
Eq. + Res. /Lns + Gtd	N.A.	N.A.	4.22	3.72	4.26	3.91	4.22	4.06	4.42	4.48	4.29	4.11
Res. /Loan + Guarid.	N.A.	N.A.	1.03	0.76	1.13	0.90	1.14	1.05	1.25	1.23	1.17	1.05
[2] Purchased Funds % PE Assets Less Contin. Liabs	13.89	11.86	16.23	17.57	14.06	16.32	14.27	18.04	12.75	12.65	13.78	15.22

[1] As of September 30; annualized [2] The amount of CD is unavailable

Opinion

Moody's Prime-1 rating of Mitsui Bank, Ltd., for short-term deposit obligations is based on its strong customer base, high asset quality, and liquid balance sheet. Mitsui Bank is an integral member of the Mitsui Group, an association composed of some of Japan's leading industrial, commercial, and financial corporations. Although its domestic branch network is slightly smaller than that of its peers with larger assets, its overseas operation compares favorably with the peer group's--a reflection of its traditional strength in international business.

The bank's asset quality remains high. Its loans outstanding to the Japanese corporations affected by the economic slowdown of the past two years are low, when compared with those of the peer group. As a result of its improved asset/liability strategy, the bank reported a substantial improvement in net interest margin for the fiscal year ending March 31, 1987, and again in the six-month period ending September 1987. It enabled the bank to take advantage of the declining interest rates through active management in both yen and U.S. dollar funds. We believe its ability to sustain the effectiveness of its asset/liability management will be tested in the intermediate term.

Mitsui Bank underwent a major internal restructuring in 1986, which resulted in an organization with decentralized business units, and with global funding and planning units that integrated the domestic and international functions of each. The bank attributes its recent improvement in performance to the reorganization.

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Attachment C

Trade Data - Philippines

Table 15
Direction of Trade
1980-1986
(F.O.B. value in million U.S. dollars)

	1986		1985		1984		1983		1982		1981		1980	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
United States	1,717	1,256	1,654	1,282	2,051	1,631	1,800	1,738	1,586	1,703	1,766	1,787	1,588	1,786
Japan	851	868	875	735	1,043	815	1,015	1,266	1,146	1,532	1,259	1,494	1 533	1,531
EEC	914	569	629	425	680	674	816	880	726	814	925	819	982	747
France	111	82	–	–	–	–	91	88	82	100	85	131	95	9
West Germany	242	220	–	–	–	–	199	355	203	332	240	316	255	323
Netherlands	247	71	–	–	–	–	226	76	190	86	320	77	366	113
United Kingdom	230	109	–	–	–	–	235	181	190	162	193	165	147	180
Italy	25	23	–	–	–	–	37	54	34	47	50	61	67	65
Others	59	64	–	–	–	–	28	126	27	87	37	69	52	57
Middle East	97	502	71	634	67	977	72	2,045	90	1,456	99	1,694	115	1,975
ASEAN countries	352	511	531	754	517	783	359	679	359	510	412	539	377	483
Indonesia	28	128	–	–	–	–	30	171	55	143	154	224	107	178
Malaysia	98	216	–	–	–	–	163	155	178	119	104	178	94	158
Singapore	158	124	–	–	–	–	140	289	112	218	129	110	113	127
Thailand	67	29	–	–	–	–	26	64	14	30	25	27	63	20
Brunei	1	14	–	–	–	–	–	–	–	–	–	–	–	–
Socialist countries	123	134	123	301	118	232	123	155	231	232	257	212	256	245
Other countries	788	1,204	746	980	915	958	820	1,434	882	1,421	1,013	1,401	937	2,223
Total Trade	4,842	5,044	4,629	5,111	5,391	6,070	5,805	8,197	5,020	7,668	5,731	7,946	5,788	8,990

Sources: National Census and Statistics Office and Central Bank.

Table 16
Direction of Trade
1975, 1980, 1985, 1986
(In per cent)

	1986		1985		1980		1975	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
United States	35	24	36	25	27	20	29	22
Japan	18	17	19	14	27	17	38	28
EEC	19	11	4	8	17	8	16	12
Middle East	2	10	1	12	2	22	2	17
ASEAN countries	7	10	11	15	7	5	3	5
Socialist countries	2	3	3	6	4	3	1	2
Other countries	16	24	16	19	16	25	11	14
Total	100	100	100	100	100	100	100	100

Note: Totals may not add up due to rounding.

Attachment D

MSI Evaluation Report - FEBTC #1 - 1988

Management Systems International
Evaluation Report dated March 1988, "Quote...

Far East Bank and Trust Company

Problem	Strategy	Mechanism Product	Monitoring Evaluation
Serious recession in economic activity in Philippines	Stimulated export activity	Offset guarantee facility	Facility fully utilized. Induced major commercial ban to expand its SME lending.
Unwillingness of local commercial banks to lend to SMSEs.	Induce a major commercial bank to lend to SMSEs.	Short-term export credits	SMSE lending Provided a model for three follow on projects.

PRE provided a $2.0 million guarantee facility to the Far East Bank and Trust Company (FEBTC) to be used to cover 50%of the principal value of up to $4 million in short-term export credits to SMSEs. SMSEs were defined as businesses with net fixed assets less than $1 million. PRE's funds were deposited in a collateral account in the Rainier bank, and this served as the basis for the guarantee facility. FEBTC is the second largest private commercial bank in the Philippines, has an excellent reputation for sound management and financial prudence, and has substantial experience in trade finance.

The project was designed during a period of serious need for increased business activity in the Philippines. At that time, business-owners and investors were postponing new investments until stabilize. In addition, local commercial banks are traditionally reluctant to provide credit to SMSE exporters, forcing these businesses to borrow from informal sector moneylenders or to operate with insufficient capital. Given the conditions of uncertainty, many SMSEs with good business prospects faced a serious shortage of short-term credit.

PRE's strategy to address these problems was to encourage a major Filipino commercial bank to begin to lend to SMSE exporters. The bank would thereby provide an example to other banks while stimulating competition and increasing the supply of export credit in one of the few economic sectors with significant near-term prospects for strong economic growth. The mechanism used was a loan guarantee facility covered part of FEBTC's credit risk to SMSE exporters.

Prior to the beginning of the project, FEBTC established two divisions to carry out actual lending and loan administration operations for SMSE loans. These SMSE units were set up after senior officers in the bank made a decision to expand the bank's SMSE portfolio.

As of September 4, 1987 FEBTC has had a total of 85 businesses which have received guaranteed credits, and a total of 216 disbursements have been made under these credit lines. The average credit size has been $80,000, and average borrower has had net fixed assets of $247,000.

The project provided a significant stimulus to economic activities during a period of uncertainty and recession in the Philippines. The $2 million loan has stimulated more than $60 million in export earnings, with employment generated for approximately 517 workers. Most sub-borrowers were in wood and rattan furniture, garments, marine, and agricultural products industries. There has been only one default as of September 1, 1987 for a total of $78,138.

In most cases, credits were made available to firms that had established credit histories. Nevertheless, there were several sub-borrowers who were new to commercial credit, and perhaps several others who may have lost their access to legal commercial credit during these times of local economic and political uncertainty.

The project encouraged one of the largest commercial banks in the country to increase its SMSE lending activity, which fostered increased competition and market efficiency in SMSE credit markets. FEBTC officers stated that the project made it possible for them to lend to businesses that otherwise would not have qualified for loans, and that they will continue to lend to this type of sub-borrower after the project ends.

Although the FEBTC project is centrally funded, it demonstrated to the Mission the effectiveness of the guarantee mechanism for SMSE development. Mission staff concerned with capital development projects are now attempting to design follow on project that uses lessons learned in the FEBTC project...."Unquote.

Strategy for Institutional Change

Institutional change is all about ensuring that project activities will be sustained in some fashion into the future. In developing an assistance strategy, project planners should look at three levels of institutional change, the partner IFIs, other IFIs, and policy-setting institutions. They should consider how their project will effect changes in each.

Projects should first aim to change the lenders that participate in them, aND should be evaluated on how well they do this. If an approach is successful, other institutions may follow. This secondary effect can never be assured, but steps can be taken to make it more likely. Among these are the selection of an IFI that has the potential to perform well and to influence others. Large, prominent lenders are likely to be watched by others, and any change they make may be copied by others wishing to keep up with the competition. This effect can also be induced by selecting a smaller IFI with a reputation for excellence. At the highest level, the lessons from a project may influence financial markets policy. Areas in which such changes could occur include: interest rates, foreign exchange controls, reserve, collateral and liquidity requirements, loan maturities, size of borrowers, lending criteria, and acceptance of new financial market instruments. In many cases, a project will not be sustainable beyond A.I.D. financing without policy change because banking regulations prohibit or discourage some aspect of the activity (not necessarily because of a direct prohibition; often because of rules limiting credit risk or liquidity generally). Promotion of policy change requires the early development and continued maintenance of good relationships with the central bank or other bank regulatory agencies.

In most cases, the strategy for institutional change must reach beyond a single IFI project, as important structural changes generally take place over a longer period of time and as a result of several events. Planners should view a particular project as one step in a process that includes other IFI projects, some by other donors, policy dialogue, again with other donors, and finally, initiatives by local financial and business leaders themselves.

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Attachment E

Sub-borrowers Information Sheet

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Project Title: ______________

Project Number: ______________

Date: ______________

QUALIFYING SUBBORROWER INFORMATION REPORT

Please make a best efforts response in answering the following questions. Check boxes where appropriate.

1. Name of Subborrower and/or company name: ______________

____

2. Contact person at the company: ______________

3. Address of Subloan business activity: ______________

____

4. Location of the Subloan business activity: /_7 rural /_7 urban

5. Nature/type of the Subloan business activity: ______________

____

6. Subborrower relationship to financial institution:

/_7 New /_7 Former /_7 Existing

7. Subloan information:

a) Loan amount (in 000's): ______________ (local currency)

______________ (US$ @ exchange rate: ________)

b) Interest rate: ________%

c) Fees and Commissions charged: ________%

d) Date extended: ______________

e) Term of loan: ______________ (Indicate as months or years.)

7. Subloan information (continued):

f) Purpose of subloan: /_7 Working Capital /_7 Fixed Assets

/_7 New start-up /_7 Expansion /_7 Replacement

8. Size of business as of ___/___/___ (before financing):

a) Total employees: Women: ________ Men: ________

b) Total assets: ______________

c) Annual sales/revenues: ______________

d) Total equity: ______________

9. Estimated potential increase in employment as a result of the Subloan:

Women: ________ Men: ________

10. Estimated annual increase in sales/revenues anticipated as a result of the Subloan (express as a percentage): ________%

11. Estimated potential economic impact anticipated as a result of the Subloan:

/_7 If foreign exchange will be generated, estimate amount to be generated annually: ______________

/_7 If the import of U.S. technology, equipment and/or services is involved, describe what kind:

____

/_7 If foreign exchange will be saved, estimate amount to be saved annually: ______________

Project Title: ____________________

Project Number: ____________________

For the Quarter ending: March 31, June 30, Sep.30, Dec.31
(circle the reporting period)

Local Lending Bank's (LLB) Quarterly Subloan Schedule Report

Name or Company Name of Subborrower	Subloan Amount (in 000's)	Exchange Rate*	Balance Outstanding (in 000's)		Due date of Subloan	Credit Quality**
			Local currency amount	US$ equivalent		

* Indicate US$ exchange rate on the date the subloan was made.

** Classify subloan quality according to: C = Current.
P = Past Due. Indicate amount. Past due equals _____ days in arrears.
D = Default. Indicate amount. Default equals _____ months in arrears.

Attachment F

Loan Loss History - FEBTC #1

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Loan Loss History - FEBTC #1

The loan loss history for the Revolving Fund is limited. An estimate of expected portfolio losses has been placed at or about 5% of outstandings. Loans through IFI are expected to have a somewhat lower rate. Losses on IFI facilities appear only after facilities are fully disbursed an based on the "law of averages" the more sub-borrowers the higher the risk of some one borrower defaulting.

FEBTC's guarantee facility was the first IFI arrangement for the Revolving Fund in ANE (1985). In addition, it is the only exclusively trade related (SME exporters) facility in the region.

As such, it is expected that it would be the first to report sub-borrower losses. Our loan loss history on FEBTC is as follows:

Borrower	Amount Paid by RF	Date	Project Discoveries
1*	$ 39,110	3/87	$10,000
1*	39,028	3/87	$10,000
2	39,028	3/88	N/A
2	25,124	3/88	N/A
3	10,842	3/88	N/A
4	7,135	3/88	-0-
5	24,831	3/88	N/A
Total	$146,070		$20,000

*Same borrower defaulted on two different maturity dates.

This loss history is equal to 7% of guaranteed loans of $2 million. It is noteworthy that most of the defaulted borrowers are still in business and efforts by FEBTC to make recoveries are ongoing. As such, it will be sometime before we can measure the true loan loss percentage on this facility.

Balancing our losses is PRE's income on this facility. Income streams are fees from FEBTC and interest income from the SB/LC issuing bank, Rainier National Bank. Income figures as of 3/88 were as follows:

Gross Fees - FEBTC	± $ 30,000
Gross Interest - Rainier	± $257,000
Total	± $287,000

Netting losses to date PRE has realized a return on this transaction of $140,930 or approximately 7% over the life of our guarantee.

Following is a Moody's securities report on our depository/borrowing bank, Rainier National Bank for 1987 reflecting a satisfactory report.

Ratings

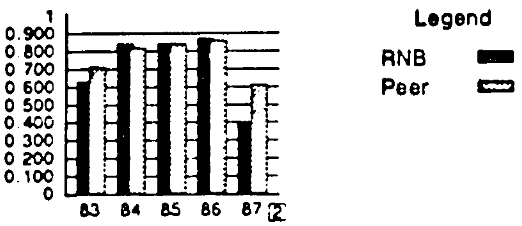
Category	Moody's Rating
Bank Deposits	
Long-term	Aa3
Short-term	P-1
Parent - Rainier Bancorp	
Senior	A1
Subordinated	—
Commercial Paper	P-1

Contacts

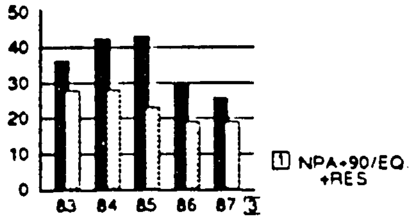
Analyst	Phone
Roger B. Arner	(212) 553-1653
Christopher T. Mahoney	

Ultimate Parent - Security Pacific Corp.	
Senior	Aa3
Subordinated	A1
Commercial Paper	P-1

Return On Assets



Asset Quality [1]



Operating Statistics

Rainier National Bank
[4] Peer Group Median

	[2] 1987		1986		1985		1984		1983		CAGR/Avg.	
ROA(%incls SLOCs)	0.61	0.39	0.86	0.87	0.84	0.84	0.82	0.84	0.71	0.63	0.77	0.75
ROE(%)	12.11	6.99	15.28	15.86	15.57	15.72	13.82	16.43	13.59	12.11	13.93	14.19
NI Margin(%)	4.48	4.81	4.60	5.04	4.87	5.15	4.79	5.30	4.16	5.14	4.55	5.13
Net ch -off/Ln. (%)	0.54	0.49	0.56	0.47	0 48	0.44	0.44	0.37	0.43	0.51	0.49	0.48
Bank NI/Consol (%)	69 7	45.4	75.2	97.9	79.5	92.2	87.1	90.2	84.6	78.9	82.9	88.1

Balance Sheet Statistics

Rainier National Bank
[4] Peer Group Median

	[3] 1987		1986		1985		1984		1983		CAGR/Avg.	
Assets ($bil)	6.8	8.1	6.8	8.3	6.7	7.8	6.6	7.3	6.2	6.0	[5]	8.03
Eq+Rs/Lns+SLOC	10.42	9.59	9.73	8.84	9.64	8.32	9.09	8.00	10.59	8.52	9.82	8.55
Res/Loans(%)	1.85	2.04	1.32	1.18	1.29	1.18	1.22	1.19	1.14	1.16	1.21	1.16
NPA/Lns+OREO	2.06	2.60	2.01	2.76	2.41	3.79	2.94	3.59	3.27	3.27	—	—
Net Pch Fund Rel	29.43	30.13	28.80	28.86	24.79	29.49	29 42	28.68	26.23	27.69	28.81	29.48
Bk Asst/Consol (%)	66.0	11.0	71.0	89.8	82.3	93.0	90.4	93.7	91.5	93.5	86.1	92.9

[2] For the nine months ended September 30 [3] As of September 30. [4] Bank's peer group is based on total assets [5] Compound annual growth rate

Opinion

Moody's Aa3 rating on Rainier National Bank for its long-term deposit obligations reflects the bank's acceptable performance in a marketplace which has encountered higher-than-average economic difficulties. This strong performance is expected to continue. Rainier National Bank is the second-largest bank in Washington. The economy of its operating area has deteriorated somewhat in recent years, especially in sectors such as forest products and agriculture. This has caused a slight deterioration in the bank's asset-quality indicators, as the percentage of nonperforming assets inched upward to a level where it probably will remain in the near term. The consumer activity is strong and will continue to show steady growth. This has given the bank a sound level of core deposits. All these factors have contributed to strong margins and sound liquidity. The returns have fluctuated more often but Rainier's ROA is continuing to improve. Subsequently, this has given the bank a good capital base, comfortably above regulators' minimums. We do not expect any deviation from this trend

On August 31, 1987, Rainier Bancorp was acquired by Security Pacific Corporation of Los Angeles, resulting in the upgrade of the bank's long-term deposit rating from A1 to Aa3.

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Attachment G

IGLF and ALF Primers

Available upon request.

The Philippines

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