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International Journal of Current Research
Vol. 10, Issue, 09, pp.73498-73502, September, 2018

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

ISSN: 0975-833X

RESEARCH ARTICLE

FINANCIAL PERFORMANCE OF PUBLICLY-LISTED PHILIPPINE BANKS IN THE ASEAN MARKET

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ARTICLE INFO

Article History:
Received 29th June, 2018
Received in revised form
27th July, 2018
Accepted 05th August, 2018
Published online 30th September, 2018

Key Words:

Capital Adequacy,
Asset Quality,
Management Efficiency,
Earnings Ability,
Liquidity Analysis.

ABSTRACT

The most common and internationally accepted tool to measure a bank's financial performance is the CAMELS rating. This study aimed to analyze the financial performance of the publicly listed banks by using the Camel model to propose a strategy for the improvement of domestic banks' competitiveness against competitor brought about by the ASEAN integration. CAMEL model was utilized based on the five indicators, namely: Capital Adequacy, Asset Quality, Management Efficiency, Earning Quality and Liquidity. The data originated from the Annual Reports of the banks for the year 2016. There were nine publicly listed banks under study. Analysis revealed that the nine public-listed banks met the minimum requirement of 10% as set by the BSP. For asset quality ratio, Bank I got the highest value with evidence of (12.87%), followed by Bank F (12.07%) than Bank B and Bank C (8.88%). Among the nine banks, Bank D got the lowest value of 1.98%. Under management efficiency parameter, it was observed that all banks got a higher value which implies that they might not have enough liquidity to cover any unforeseen fund requirements. Also, analysis revealed that Bank E was on the top position with highest ratio of 15.04% followed by Bank A (11.81), Bank F (10.87%), Bank C (10.51%), Bank D (10.23%), Bank I (9.83%), Bank G (9.47%), and Bank H (6.97%) respectively. Bank B scored the lowest position with least ratio of 4.28%. In the aspect of liquidity ratio, Bank H, Bank A, Bank C, MBTC, and Bank F had the better performance with a rating of above 70%. The researchers concluded that the nine different banks had obtained different scores concerning CAMEL ratios. Banks were reaching the best rates and also banks achieving the poor rates as per minimum standard set by the Bangko Sentral ng Pilipinas.

Citation: ***Jennifer B. Cabaron, Belinda P. Torres, Richard R. Cabaron*, 2018.** "Financial performance of publicly-listed Philippine banks in the Asean market", *International Journal of Current Research*, 10, (09), 73498-73502.

INTRODUCTION

It is in the banking industry (Simpson, W. G., and Kohers, T., 2002) in the Philippines pronounced to be financially healthy and stable. Many of the domestic banks (Havrylchyk, O., 2006) have merged to increase its assets and competitiveness (Beck, T., Demirgüç-Kunt, A., and Levine, R., 2006)in a more demanding and competitive Asian market. The Philippines at present is one of the original signatories of the ASEAN cooperation. According to Portela (2009), the aim of clustering the ASEAN is to accelerate economic growth, social progress and cultural development in the region. With the common interest of attaining economic development, goods and services will be fluidly flowing among ASEAN member countries (Urata, S., and Ando, M., 2011). One of the critical roles of the banking industry is promoting growth and in pursuing a dynamic economy for a state. With technological advancement and the economic cooperation among nations, banks get more interconnected and expand further its area of coverage reaching beyond its national borders.

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DOI: https://doi.org/10.24941/ijcr.31196.09.2018

It is then anticipated that the regional economic integration brings in more investors, thereby, increasing competition in a larger single market. With a regionally integrated economy, banks are expected to behave more efficiently and competitively through bank supervision of BSP. For Misra and Aspal (2013), evaluation of the financial performance of the banking sector (Kouser, R., and Saba, I., 2012) is a useful measure and indicator to check the soundness of economic activities of an economy. This financial performance of banks and other financial institution is measured by using a combination of financial ratio analysis and benchmarking (Avkiran cited by Rostami, 2015). Thus, Kumari (2015) averred that economic analysis is an analytical way of viewing the financial position of a company because it provides a clear guide to evaluate and recognize the company's position. The most common and internationally accepted tool to measure a bank's financial performance is the CAMELS rating. This six-component framework allows the disclosure of the bank's strengths as well as its weaknesses. The information is also useful to compare the soundness of these selected banks vis-a-vis other Asian banks operating in the country. With this, it was the researchers aimed to analyze the financial performance of the publicly listed banks to propose a strategy for the improvement of domestic banks' competitiveness against

competitor brought about by the ASEAN integration using the CAMEL rating system.

Conceptual Framework

This study anchored on the concept of Ishaq, Karim, Ahmed and Zaheer (2016) that assessment of financial performance of the banking industry is a robust measure and pointer to check the soundness of economic activities of an economy. CAMEL model is an international rating system that bank supervisory authorities (BSP) use to rate a financial institution's overall condition. The five dimensions of the CAMEL model (Mishra, S., and Aspal, P., 2012) used to evaluate the operating soundness, financial performance, financial situation and regulatory compliance of the banking organization. Further, to be eligible, BSP-Supervised Financial Institutions (BSFI) need to have a CAMELS rating of at least "3" Rostami (2015), CAMELS" model as a tool is beneficial, efficient and accurate to be used as a performance evaluator in banking industries and to anticipate the future and relative risk. In this study, five categories of ratios according to the CAMELS system are applied and summarized in the corresponding model:

Capital Adequacy. It is a measurement of a bank (Arnone, M., Laurens, B., and Segalotto, J. F., 2006) to determine if solvency can be maintained due to risks that have been incurred in the course of business. Capital allows a financial institution (Beck, T., and Demirguc-Kunt, A., 2009) to grow, establish and manage both public and regulatory confidence, and provide a cushion to be able to absorb probable loan losses beyond identified problems. A bank must be able to generate capital internally, through earnings retention, as a test of capital strength. An increase in equity as a result of restatements due to accounting standard changes is not an actual increase in capital.

Asset Quality Ratio: Banks depend on their robust capability of earnings for performing the activities like funding dividends, maintaining adequate capital levels, providing for opportunities of investment for the bank to grow, strategies for engaging in new businesses and managing the competitive outlook (Kumar, Sri Harsha, Anand and Dhruva, 2012). The results of asset quality computations reflect the existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, and other assets, as well as off-balance sheet transactions. To identify and manage the credit risk, the ability of management needed (FDIC, R. (2015).

Management Efficiency: The measurement of management capacity performance is usually qualitative through the subjective evaluation of management systems, organization culture and control mechanisms and so on. However, the position of the management of a bank can also gauge with the help of precise ratios of off-site evaluation of a bank. The capability of the administration to deploy its resources, aggressively to maximize the income, utilize the facilities in the bank productively and reduce costs (Mohiuddin, 2014).
Earnings Ability: A ratio of net profit after tax to total shareholders' funds. It measures a unit yield of profit to a unit value of total shareholders' funds. The higher the value of this earnings ability ratio, the better the financial health of a bank.

Liquidity Analysis: In the banking sector, liquidity management assumes prime importance due to competitive pressure and the natural flow of foreign capital in the domestic markets. The impact of a liquidity crisis in the banks can adversely impact the financial performance of the banks. The inability of the banks to manage its short-term liquidity liabilities and loan commitments can negatively affect the financial performance of the banks by substantially increasing its cost of fund and overexposure to unrated asset category (Kumar, Sri Harsha, Anand and Dhruva, 2012).

MATERIALS AND METHODS

The sample frame consisted of the nine (9) selected publicly listed banks in the Philippines. For this purpose, the CAMEL model was utilized based on the five indicators, namely: Capital Adequacy, Asset Quality, Management Efficiency, Earning Quality and Liquidity. The data got from the Annual Reports of the banks for one (1) year (2016). The data used to calculate the key financial ratios of the publicly listed banks for the above mentioned period. Moreover, data also gathered from articles, papers, the World Wide Web (Internet), Specialized International Journals, and relevant previous studies. In this study, some essential ratios are chosen and calculated to evaluate the bank's performance. The calculation and description of CAMEL are as follows:

Capital Adequacy Ratio: A proportion of total shareholders' (Tarawneh, M., 2006) funds to total deposits. It shows the capacity of shareholders' funds to withstand sudden withdrawals. The higher the rate, the better the financial health of the company.

Asset Quality Ratio: A ratio of non-performing loans (Louzis, D. P., Vouldis, A. T., and Metaxas, V. L., 2012) to total equity. This ratio shows the ability of a bank to meet further losses on total gross non-performing loans. The higher the rate, the worsening of the financial health of a bank.

Management Efficiency: It is a ratio of gross advances to total deposits. The higher the rate, the worsening of the financial health of a bank.

Earnings Ability Ratio: A ratio of net profit after tax to total shareholders' funds (Rego, S. O., and Wilson, R., 2012). It measures a unit yield of profit to a unit value of total shareholders' funds. The higher the rate, the better the financial health of a bank.

Liquidity Ratio: The measurement of is cash and other cash equivalents over total liabilities. The higher the rate, the better the financial health of a bank.

RESULTS AND DISCUSSION

As presented in Figure 1 below is the capital adequacy ratio of nine selected publicly listed Philippine Banks. The computation of capital adequacy ratio did by taking the rate of total shareholders' funds to total deposits. It showed the capacity of shareholders' funds to withstand sudden withdrawals. Based on the capital adequacy parameter, Bank C got the highest capital adequacy ratio of 19.29% followed by Bank F (17.58%), Bank H (15.59%) occupied the third position, then followed by Bank I (15.06%), Bank A (14.73%), Bank D (14.21%), and Bank G (13.12%). Bank E got the lowest ratio of 12.17% among all the nine selected publicly listed Philippine Banks. Thus, the banks met the minimum

requirement (Board, F. S., 2014) of 10%. It implies that these nine publicly listed banks were displayed a healthy sign of bank survival in times of crisis and also opportunities to expand in the future, where the rating reflects the inner strength of the banks. Mohiuddin (2014), the higher capital adequacy rate, the better performance of the bank industry, however, this high rate indicates that the bank is conservative and has not utilized the full potential of its capital.

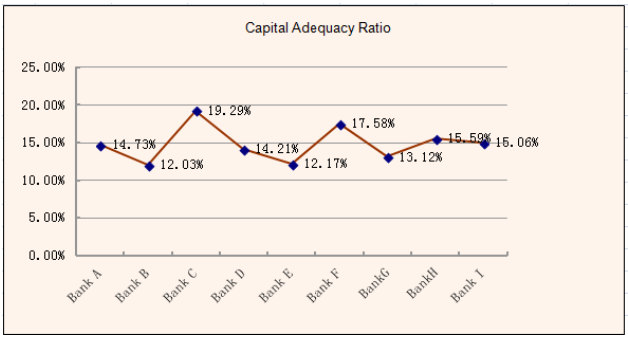

Figure 1. Capital Adequacy Ratio

Asset Quality Analysis

The analysis in Figure 2 revealed Bank I got the highest value of asset quality ratio (12.87%), followed by Bank F (12.07%) than Bank B and Bank C (8.88%). Among the nine banks, Bank D got the lowest value of 1.98%. The computation was done by taking a ratio of non-performing loans to total equity. It denotes the ability of a bank to meet further losses on total gross non-performing loans. Those banks got a lower value sounds financially healthy, whereas those got a higher value displayed the levels of risk and problem which are very significant, inadequately controlled, and subject the financial institution to potential losses that, if left unchecked, may threaten its viability. Maintaining sound asset quality (Nazir, T., 2010) includes cautious loan granting that must be performed and that which can increase the level of the bank's income base (Ishaq, Karim, Ahmed and Zaheer, 2016). For the element of Asset Quality, the weak ratings display the levels of risk and problem which are significant, inadequately controlled, and subject the financial institution to potential losses that, if left unchecked, may threaten its viability.

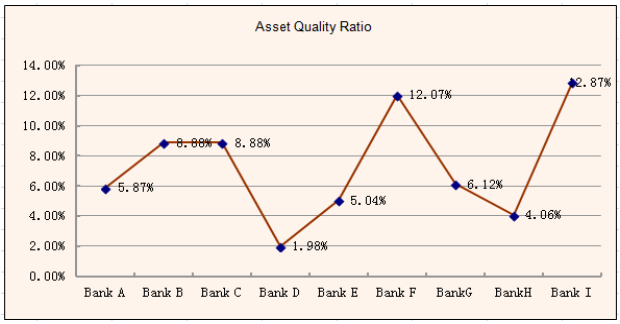

Figure 2. Asset Quality Ratio

Management Efficiency

The management capacity of the nine banks has been explained in Figure 3 with the help of productivity ratios like gross advances to total deposits. During the period under the study, the bank's business has shown a high rate in its advances and deposits. Similarly, under management efficiency parameter, it is observed that Bank C got the highest ratio of 33.22%, followed by Bank H (28.57%), Bank B (27.78%), and Bank F (26.88%). This high rating of gross advances over deposits displayed that the banks might not have enough liquidity to cover any unforeseen fund requirements. Thus, the possible reason for this was the poor performance in total advances to total deposits. This ratio evaluates the efficiency and capability of the bank's management in applying the deposits (including receivables) available excluding other funds viz. equity capital, etc. into rich earning advances (Misra and Aspal, 2013). Higher the ratio means less liquid and taking more risk. So the bank has to maintain a specific rate for following the central bank policy and keep the sustainable position in the competitive market (Islam, 2014).

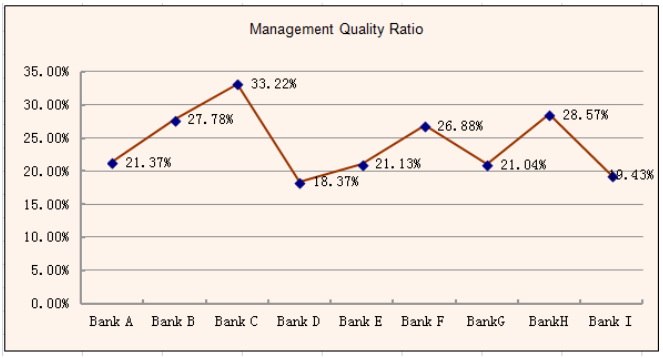

Figure 3. Management Quality Ratio

Earnings Ability Ratio

In figure 4, Bank E is on the top position with highest ratio of 15.04% followed by Bank A (11.81), Bank F (10.87%), Bank C (10.51%), Bank D (10.23%), Bank I (9.83%), Bank G (9.47%), and Bank H (6.97%) respectively. Bank B scored the lowest position with the least ratio of 4.28%. It means that the banks with a higher rate reflect better earning potential in the future.

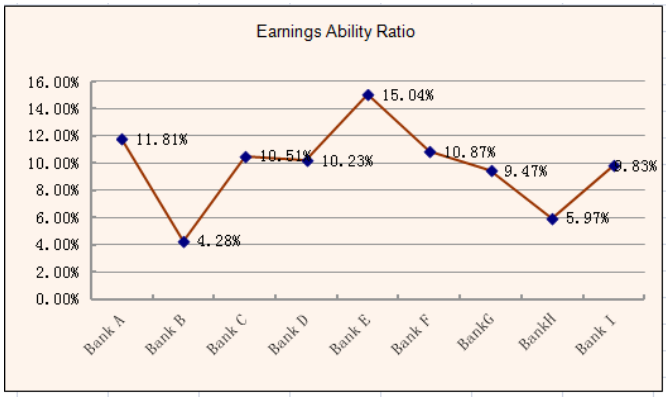

Figure 4. Earnings Ability Ratio

Liquidity

The computation of liquidity ratio did by taking the ratio of cash and cash equivalents to total liabilities. It expressed as a percentage; the rate shows the ability of a bank to pay the demand withdrawal of withdrawal of depositors, as well as, installment of creditors and ultimately payment for other contingent liabilities. The higher the rate, the better the financial health of a bank. Bank H, Bank A, Bank C, Bank D, and Bank F had the better performance with a liquidity ratio of 84.73%, 80.41%, 78.80%, 74.01%, and 73.69% respectively. These banks have high confidence and beliefs without

prejudice to discreet principles in evaluating the feasibility of customers who need financing. Also, they have enough cash to pay their liabilities. Whereas Bank B (66.50%), Bank E (68.39%), Bank G (68.91%) and Bank I (52.93%) had the weak performance. As per Bangko Sentral ng Pilipinas requirements', the minimum liquidity coverage ratio that banks must have under the new Basel III standards are phased in the beginning at 70% in 2016 and steadily increasing to 100% by 2019. Thus liquidity management is one of the essential functions of a bank (Bianchi, J., and Bigio, S., 2014) . If funds tapped are not properly utilized, the institution should suffer loss. The idle cash balance in hand has no yield. Likewise, if the bank does not keep balanced liquid cash in hand, it cannot be able to pay the demand (Mohiuddin, 2014).

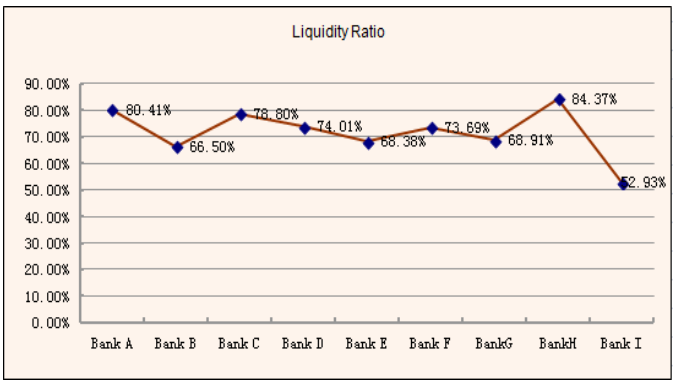

Figure 5. Liquidity Ratio

ASEAN Public Listed Banks Performance

The aspects of Earnings Quality, Asset Quality, and Liquidity needed to be put to emphasize by BSP regulators (Gallardo-Quintilla, M. A., Tiu, T., and Torres, E., 2014) since these three elements had pictured the nine (9) selected public-listed (Hamid, F. Z. A., 2004) banks in the Philippines into having poor management of earnings, asset, and liquidity. The weak rating to the component of Earnings Quality (Rozzani, N., and Rahman, R. A., 2013) could cause by banks' rigid lending policies and strict lending criteria. For the element of Asset Quality, the weak ratings display the levels of risk and problem which are significant, inadequately controlled, and subject the financial institution to potential losses that, if left unchecked, may threaten its viability. For the component of Liquidity, the weak rating displays an unbalanced mixture of liquid and non-liquid assets. By that, the management should design better strategies of liabilities and asset management, as banks should be able to meet its liability obligations in times when the demand arises. Overall, comparing to three (3) ASEAN publicly-listed banks in Thailand, Malaysia, and Singapore, it is found out that Thailand' s public-listed banks had the best performance in Capital adequacy. Malaysia's public listed banks had the best performance in asset quality, Singapore's public listed banks had the best performance in Management efficiency, while the Philippines' public-listed banks had the best performance in both Earning quality and Liquidity. Further, according to him, the comprehensive results revealed that Public Bank in Malaysia, United Overseas Bank in Singapore, Bank Artha Graha in Indonesia, Bank of Ayudhya in Thailand and Union Bank of the Philippines in the Philippines were the banks with the best performance by country (Ling, 2013).

Conclusion

The analysis and the discussion in the preceding pages revealed that the different banks had obtained different ratings concerning CAMEL ratios. Banks were reaching the best rates and also banks achieving the worst rates as per minimum standard set by the Bangko Sentral ng Pilipinas. The ASEAN economic integration, at the moment, presents to be a threat to the Philippine domestic banks more than a benefit as initially envisioned. While the local banking industry's improvement is already taking place, the profit from the integration is not yet genuinely enjoyed by the same. It is still a long way to go for the domestic banking industry to be at par with its competitors in the ASEAN community if it is to progress solely on its own. If not acted upon appropriately and urgently, this might result to be a problem in the industry.

Recommendation

With the Philippine banks trailing behind, the following strategies are offered for the same to enjoy the gains, soon, as promised:

1. Maximize its strength by exploring the market for potential investors and depositors capitalizing on its high ratings on financial performance specifically, Capital quality and Management quality.
2. Improve its operations by innovating and accessing needed technology for efficiency, hence, benchmarking with ASEAN banks on its CAMELs performance and profitability; specifically, in the Asset quality, Earnings Quality, and Liquidity.
3. Manage the threats posed by bigger and stronger competitors, by ensuring that it retains its investors and depositors by sustaining the competitiveness of the banks Capital quality and Management quality.
4. It is best that domestic banks merge with bigger and stronger foreign banks to at least make a significant improvement in its overall operations and avoid their harsh impact from the presence of financial and operational risks.
5. More research to be conducted in this area of banks performance evaluation which will be covered for five years.

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