



A Financial and Operational Analysis of Development Bank of the Philippines

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Abstract: Banking is a large industry worldwide because they offer numerous services such as personal banking, foreign exchange trading and trading of equities which are some of the many reasons why banks help the economy stay afloat. Development Bank of Philippines (DBP) is a government owned development bank and although it provides the services of a universal bank, its primary function is to finance different economic sectors which lead to development and growth of the nation such as business and agriculture. The bank received awards from different bodies throughout the years for outstanding projects in different fields such as environmental development and local economic development which show that DBP is a very capable bank. The study aims to create a report on DBP and understand the country's development banking industry by using Porter's five forces analysis. SWOT analysis will be used to gain a better understanding of what DBP has done well and how it can improve its own performance. We will also analyze how DBP has performed financially based on key financial highlights. This is significant as we are amidst ASEAN integration, and improving development banks like DBP can help improve lives of more Filipinos. This paper showcases the opportunities of capitalizing the growth of this bank, given the circumstances that the Philippines has been fully supporting small to medium enterprises. It was affirmative that the institution has better development potentials if not to be merged with LandBank despite of its current financial performance, since the two have different niche markets and may stall the operations and cause unemployment.

Keywords: financial analysis; development bank; economic development; economic growth

1. INTRODUCTION

The Development bank of the Philippines (DBP) the 7th largest bank in the Philippines in terms of total assets, as well as the 2nd largest government owned bank. DBP operates as a development bank and a universal bank. DBP's history started as early as 1935 when the National Loan and Investment Board (NLIB) was formed and underwent it many changes until the Rehabilitation Finance Corporation (RFC) was reorganized into the Development Bank of the Philippines.

As the country's most progressive development banking institution, DBP focuses on providing financing to different industries which create linkages that induce economic development.

Some of the projects DBP helped finance are the Tarlac-Pangasinan-La Union Expressway

(TPLEX), PetroWind Energy Inc.'s renewable energy projects in Nabas and Malay, and the Tree Plantation Financing Program (TPFP) which aims to increase the number of trees planted in order to help address climate change and reactivate wood-based industries.

1.1 Current Progress

Since DBP is primarily a development bank, its goals are different from the usual universal banks people often see. They are not profit-driven like other universal banks, but they focus on assisting economic development. Over the years, the bank has managed to perform well and continuous increase its assets which signifies that the firm is performing quite well.

1.2 Objectives

This paper aims to use Porter's 5 forces and SWOT analysis in order to gain a better understanding of the development banking industry in the Philippines and determine what DBP has been doing well and how it can improve. Financial highlight analysis will also be used to assess the financial performance of DBP. Lastly, with the merger of DBP and the Land Bank of the Philippines approved, our group will analyze what are the implications of the merger and if it was the right move.

1.3 Scope and Limitations

Due to constraints, this study will cover DBP's financial reports from 2012-2014. The study will only look into the strengths and weaknesses of the firm's operational and financial aspects.

2. METHODOLOGY

2.1 Porter's Five Forces Analysis

This paper will do an analysis on the development bank nature of DBP.

As a Government Owned Development Bank:

Threat of New Entrants

Low- Aside from the high capital requirement to create a bank, development banks are not profit oriented so it is doubtful that private firms will create new ones. The government also will not create a new development bank to avoid redundant functions

Bargaining Power of Suppliers

Low- A bank's funds mostly come from deposits. Government institutions can only deposit in government financed institutions (GFI's) or private banks with special authority from BSP.

Bargaining Power of Buyers

Low- The government can only borrow money from GFI's or banks with special authorization from the BSP.

Threat of Substitutes

Low- No other financial institutions provide funding to development projects like development banks. (e.g lower interest rate for loans)

Industry Competition

Low- DBP and ADB are the only 2 development banks in the Philippines, but ADB also focuses on projects abroad making DBP the leading development bank dedicated to the Philippines.

2.2 SWOT Analysis

This aims to identify the strengths, weaknesses, opportunities, threats of the institution through market analysis and article reviews of analysts and officers.

Strengths

- DBP is the largest and only state-owned development bank. It is the country's most progressive development banking institution.
- DBP has been the key player in nation-building through assisting critical industries and promoting social entrepreneurship, advancing communities and environment, and improving lifestyles of Filipinos.
- It has a universal bank's license and functions of a thrift bank.
- It is the seventh largest bank in terms of assets.
- It mainly targets the agricultural and industrial sectors, targetting a sustainable environmental and economic growth.
- Government-owned and Controlled Corporations (GOCCs)
- It has subsidiaries or affiliated to: Al-Amanah Islamic Investment Bank of the Philippines, DBP Data Center, DBP Insurance Brokerage, Inc.
- As the counterpart or tandem of LandBank, it either act as partner or competitor when needs arise.

Weaknesses

- Structural weakness in the scheme
- Low repayment rate
- Non-sustainability of the lending facility
- Low growth rate in terms of interest income and return on investment
- It lacks the ubiquity of being an universal bank.
- Overlapping functions with LandBank
- Relatively high unquoted or bad debts

Opportunities

- Internet Banking through Bancnet expands the possibilities and efficiency
- Two thirds of the poor households have not received microfinance services (2.9M)
- Addresses and targets specific funding needs of individuals and sector
- Provides "extended-loan" programs to hospitals for healthcare promotion such as Transplant Institutes
- Compare to Asian Development Bank, the biggest competitor, DBP provides more opportunities and less strictness to loans of small and medium

enterprises, unlike ADB that mostly provides loans to bigger projects

- DBP has a broader mandate compare to LandBank in terms of servicing certain sectors

Threats

- Relatively inferior to competitors such as BDO, BPI, MetroBank, and others in terms of customer preferences and popularity for its deposit products and cash services
- Merging with LandBank and its implications in terms of legislations, unemployment, and structural changes
- Redundancy: both GOCCs tap the foreign lending market extensively for its lending programs and both issue dividends to the national coffers.
- DBP's identity will be lost after the merging since LBP will be the surviving entity

2.3 Financial Highlights Analysis

The following financial highlights were taken from the 2014 annual report of DBP.

Table 1. Revenues and Income

Year	Gross Revenue (In PHP Billions)	Net Income (In PHP Billions)
2012	17.09	4.21
2013	19.25	5.28
2014	19.63	4.60

Table 2. Return on Equity and Assets

Year	Return on Equity (In %)	Return on Assets (In%)
2012	10.02	1.22
2013	12.71	1.36
2014	11.01	1.03

Table 3. Total Resources

Year	Assets (In PHP Billions)
2012	351.73

2013	427.35
2014	467.51

2.4 Analysis of the Merger

Due to the overlapping functions of both banks, the president has recently approved of the merger between DBP and Land Bank of the Philippines.

This merger will have the following implications:

- Increased efficiency in the operations of the new entity because it eliminates redundant functions of both banks.
- Greater accessibility to bank's services because DBP and Land Bank have a total of 441 branches nationwide.
- New entity will be the 2nd largest bank in the Philippines in terms of total assets.

3. RESULTS AND DISCUSSION

3.1 Operations

Based on SWOT and Porter's analysis, DBP is in no threat from being outclassed by other firms in the industry because it does not actually have any direct competition. Aside from that, development banking is not even profit based, because success is measured by how well the institution is able to make a difference in society.

Finance

Looking a DBP from a financial perspective, it is safe to say that the firm is still earning as lot despite a decline in net income from 2014. The bank still maintains positive return on assets and return on equity ratios, meaning that the resources are still being utilized to an extent that the bank makes a profit.

The good thing about DBP is that over the years, they continue to increase their assets, and by increasing it, this gives them ability to have financial stability, and at the same time, have more flexibility in their banking transactions.

Merger

In the previous section, some of the positive effects of the merger are mentioned. Given that ASEAN Integration is nearing, the merger makes sense because of the increase in capital requirement

for banks required by the BSP, and also this makes the new entity a competitive one against foreign firms.

The negative impact of this is the fact that employees from both Land Bank and DBP would be released from work because both banks have similar functions, and this avoids redundancy in the role of employees.

4. CONCLUSION

We find that DBP on its own is very capable of operating well over the years. Given that it has a niche market of clients (industries in need of funding and the government) and no direct competitors, the bank should not have to worry about losing market shares.

Financially, the bank does not look like it is in any danger of being bankrupt, and it still earns a relatively high net income per year. Although the trend in our financial analysis showed that net income was declining, it was actually paired with an increase in gross revenue meaning the bank does earn more, however it might be spending too much. Nevertheless, the bank is financially stable.

Given what we have learned about DBP, the merger does not seem to be necessary because DBP can thrive on its own. However, given the similarity of its functions with Land Bank, the merger does make sense. There will be setbacks, such as time for the firms to adjust to the merger, and how operations will be carried on, but if it follows the progress shown by the merger of BDO and Equitable PCI, then we are certain of further economic development in the Philippines.

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