BANKING SUPERVISION AND EXAMINATION IN THE PHILIPPINES[1]

1. Introduction

Several observers have pointed out that the 1997 Asian financial crisis has revealed weaknesses in banking supervision in Asian jurisdictions, including the Philippines. As a response, banking supervisors across the region have set out to improve the practice of banking supervision in their respective jurisdictions, either through their individual efforts or through regional efforts via the different regional groups of banking supervisors. These efforts are generally guided by the Basel Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision.

This paper discusses the efforts undertaken by BSP, specifically on the strengthening of its legal and supervisory framework, enhancements in its organizational structure, improvements in its compliance with the Basel Core Principles, and its adoption of various tools for banking supervision.

It is organized as follows: Section 2 starts out with an overview of the Philippine financial system, and a discussion of the roles of the different financial supervisory agencies in the country. Section 3 gives an overview of the structure and performance of the Philippine banking system, while Section 4 discusses the state of and the developments in the supervision of the banking system in the Philippines. Section 5 offers some concluding remarks.

2. Overview of the Philippine financial system

The Philippine financial system is dominated by banks (Table 1). However, other financial institutions are also active. These include non-bank financial institutions, pre-need companies, and insurance companies.

Table 1. The Banking System

	Total Assets PhP Millions As of End-September 2007	**Physical Count As of End-November 2007**
Banks	**4,930.1***	**838**
- Universal Banks	3,539.1	16
- Commercial Banks	764.4	22
- Thrift Banks	477.9	82
- Rural and Cooperative Banks	148.7*	728

**Preliminary*

[1] Paper to be presented by Mr. Nestor A. Espenilla, Jr., Deputy Governor of the Supervision and Examination Sector of the Bangko Sentral ng Pilipinas during the IMF-FSA Conference on *Financial Stability and Financial Sector Supervision: Lessons from the Past Decade and Way Forward* to be held in Tokyo, Japan on 17 December 2007

There are three agencies that supervise the different institutions in the Philippine financial system. In addition to being the monetary authority, the Bangko Sentral ng Pilipinas (BSP) supervises banks and their financial allied subsidiaries and affiliates (except insurance companies), non stock savings and loan associations, and pawnshops as provided for in its Charter (R. A. 7653), the General Banking Law (R. A. 8791) and other special laws. The Securities and Exchange Commission (SEC), on the other hand, has oversight on the domestic capital market and, as such, supervises self regulatory organizations (SROs), investment houses, and securities dealers/brokers. It also supervises investment companies, finance companies and pre-need firms. Finally, the Insurance Commission (IC) supervises insurance and reinsurance companies, insurance brokers, and mutual benefit associations. In addition, the Philippine Deposit Insurance Corporation (PDIC) also shares some supervisory powers with BSP over banks consistent with its role as deposit insurer.

In July 2004, the three financial supervisory agencies, together with the PDIC, formed the Financial Sector Forum (FSF) through the signing of a Master Memorandum of Agreement (MMOA). The FSF is essentially a cooperative effort without any specific legal authority, and thus it is not intended to function as an integrated supervisory body. The FSF primarily serves as a forum for the separate financial regulators to coordinate and discuss matters of common concern. It meets on a regular bi-monthly schedule. It arrives at decisions by consensus and implements such decisions separately through the component agencies based on their specific charters. The members of the FSF are the heads of the four member agencies: the BSP Governor, the Chairperson of the SEC, the Insurance Commissioner, and the President of the PDIC. As per agreement, the BSP Governor acts as the chair and BSP hosts the FSF Secretariat. The key objectives for setting up the FSF include the improvement of the supervision of financial conglomerates and addressing the occurrence of firms operating in "regulatory grey areas". To help achieve this objective, the FSF has working groups for three core areas: supervision and regulatory policy, reporting and information exchange, and consumer protection.

3. The Philippine banking system

Structure of the Philippine banking system

The Philippine banking system is made up of four types of banks – commercial banks (further subdivided into universal and regular commercial banks), thrift banks, rural banks, and cooperative banks. These banks are differentiated according to size of capitalization and types of activities that they may undertake. In terms of capitalization, universal and regular commercial banks have a minimum required capital of P4.9 billion and P2.4 billion, respectively, thrift banks with head office in Metro Manila, P325 million, and thrift banks with head offices outside Metro Manila, P52 million. For rural/cooperative banks, the required minimum capitalization ranges from 2.6 million to P20 million depending on the type of city/municipality. Aside from the minimum capital, banks are also required to satisfy a minimum risk-based capital adequacy ratio of 10 percent. This risk-based capital requirement essentially conforms to the Basel Committee's 1988 Capital Accord and its recent revisions including the most recent Basel II recommendations.

In terms of allowed activities, universal and regular commercial banks can accept drafts and issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, receive deposits, and buy and sell foreign exchange. In addition, universal banks are also allowed the activities of investment houses, invest in the equity of companies engaged in business not related to banking, and own up to 100 percent of the equity of financial allied undertakings other than commercial banks. Thrift banks, on the other hand, are allowed to accumulate savings of depositors and, together with own capital, invest these deposits in retail loans, or finance homebuilding and home development, and others. They are also expected to provide short-term working capital and medium- and longer-term financing to businesses. Lastly, rural banks, aside from accepting deposits, are expected to make credit available in less urbanized areas at reasonable terms. These loans and advances are primarily for meeting normal credit needs of farmers, fishermen, cooperatives and merchants.

The Philippine has also made significant headway in implementing sustainable non-subsidized microfinance delivered through the banking system primarily by rural banks that have specialized in this area. Increasingly, commercial banks are moving into this area as well as through wholesale lending to retail microfinance-oriented financial institutions.

As of end-November 2007, there are 828 banks that make up the Philippine banking system. Of that figure, 38 are commercial banks, 82 are thrift banks, and 728 are rural banks/cooperative banks. In terms of assets, as of end-September 2007, Philippine banking system assets amounted to P4,930 billion, or about 78 percent of the country's GDP**.** Of this amount, roughly 87 percent is owned by the universal/commercial banks while only 10 percent and 3 percent come from the thrift and rural/cooperative banks, respectively.

Performance of the Philippine banking system

The Philippine banking system continued its steady recovery in 2007, with assets, loans and deposits posting growth rates of 8.6 percent, 6.0 percent, and 6.1 percent, respectively. This was accompanied by respectable profitability measures: 9.3 percent increase in total operating income and ROA and ROE figures of 1.2 percent and 10.7 percent, respectively.

Asset quality has also continued to improve. End-September gross 2007 NPL and NPA ratios stood at 5.6 percent and 6.3 percent, respectively, which are quite close to their pre-Asian crisis levels of 3-4 percent. The NPL/NPA ratios had peaked at around 18 percent at the height of the Asian financial crisis. This decline can be largely attributed to the asset clean-up process facilitated by the SPV Law, enacted in 2005, which gives fiscal incentives as a means of reducing transaction friction cost to banks selling their NPAs in bulk to privately-owned special purpose vehicles (SPVs) created for the purpose. Foreign funds are allowed to invest in such SPVs and have played a major role in absorbing and resolving NPAs of the banking system. So far, around P126 billion of NPAs have already been disposed by the banking system. Asset quality of the banking system is expected to further improve with the continued disposal of NPAs under the extended SPV Law which runs until May 2008. Banks have also been allowed to enter into joint venture arrangements for their acquired assets subject to the basic restrictions that no fresh financing may be provided by the bank to the joint venture. This arrangement is proving to be popular in the rising property market.

The banking systems' capital adequacy ratio (CAR) – 18.83 percent as of end-June 2007 – is also significantly higher than the Basel and BSP's minimum standards of 8 percent and 10 percent, respectively. The banking systems' solvency seems resilient even with the implementation of Basel II (standardized approach) in July of this year. Data from the validated parallel run reports of universal banks showed that CAR, on average, will only decrease by around 300 bps to 14 - 15 percent. Most of this will be due to the new operational risk charge.

4. Banking supervision in the Philippines

Legal and supervisory framework

Republic Act No. 7653 as amended, otherwise known as the New Central Bank Act of 1993 authorized the Bangko Sentral ng Pilipinas to exercise supervision over the operations of banking institutions and quasi-banks including their subsidiaries and affiliates engaged in allied activities. This provides the legal basis for the implementation of consolidated supervision. The adoption of the risk based approach in the conduct of banking supervision, on the other hand, is supported by the General Banking Law of 2000 (R.A. No. 8791).

The implementation of consolidated supervision was driven by the emergence of complex banking groups and mixed conglomerates controlled by a few affluent families. It was observed that certain structures were resorted to in order to benefit from regulatory arbitrage, and gain ready access to low cost funds for the family business group against the backdrop of an underdeveloped domestic capital market.

On the other hand, a more risk-based approached was necessary to keep up with the growing complexity of the banking business. At the same time, increasing and simultaneous demands on available but limited supervisory resources prompted the search for an alternative approach that would permit a more efficient allocation based on identified priority needs. Financial institutions that prove themselves to be well managed certainly do not require as much supervisory attention as those which are determined to be poorly managed.

The Bangko Sentral initially adopted a gradualist approach in effecting the shift to consolidated supervision and the risk based approach, cognizant of the importance of managing change and ensuring sufficient buy-in of major stakeholders involved. Moreover, it was clear from the start that full adoption of consolidated supervision and the risk based approach called for improvements in data collection, an almost total overhaul of supervisory processes and procedures, and a paradigm shift in the mind-set of bank supervisory staff. The last posed the greatest challenge as the exposure of a larger number of the more senior supervisory staff had been to compliance based supervision.

The Bangko Sentral first started to move in the direction of consolidated supervision in 1998 by adopting a common cut-off date for examination of banks and their subsidiaries/affiliates. However, the examinations were only loosely coordinated. It was only in 2005 when the supervisory approach to banking groups was formally integrated and the pace of change has since rapidly picked up. This effort was also assisted by the formation of the FSF.

The shift to a risk based supervision approach from a compliance based one started in 1997 when the BSP gradually redirected its supervisory thrust to focus more on the measurement and management of banks' risk exposures, rather on financial audit of sample transactions occurring within a specified period generally reckoned from the immediately preceding examination the identification of breaches of provisions of law or banking regulations. Progress, however, was very incremental due largely to internal resistance and the full shift only started to happen in 2005.

The BSP's new supervisory approach now favors an assessment of the quality of risk management practices and generally allows banks to take risks so long as the banks demonstrate the ability to manage, absorb and price for those risks, in contrast to the traditional approach that cautioned banks against taking on risks that seem too high. In carefully loosening the regulatory grip on banks' risk taking activities, the BSP must necessarily underscore the responsibility of the bank's board of directors and senior management to ensure the soundness and stability of their respective banks. BSP's role is primarily to evaluate the quality of oversight, the adequacy of policies and procedures, the robustness of the risk management system and the effectiveness of the internal audit function.

To carry out its changed approach, the BSP thru its Supervision and Examination Sector, found it imperative to improve its data collection and storage, review and revise competency requirements for bank supervision staff, overhaul the examination and offsite monitoring processes, and intensify efforts to continuously upgrade the skills of bank supervisory staff.

Data Collection and Storage

As far as data collection and storage is concerned, a new Financial Reporting Package (FRP) was crafted that is consistent with the Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS). In 2005, the PAS/PFRS was amended to fully align with the IAS/IFRS for enhanced financial transparency. The FRP, submitted electronically, is meant to facilitate gathering more relevant data leading to improved and timely analysis that will support the supervisory process. A Data Warehouse System has also provided ready access to all supervisory data by authorized personnel and brought ease in doing vertical and horizontal analysis of data, peer group comparisons and trending. Examiners/analysts may perform such analysis using a comprehensive pre-programmed Bank Performance Report (BPR) or do independent data mining.

In the very near future, reporting banks will be provided web-based access to their own data relative to aggregated peer data for value added and better quality control.

Formal as well as informal arrangements for information sharing with other financial regulatory agencies (SEC, OIC, PDIC) within the FSF mechanism has also yielded more comprehensive information about complex banking groups that has contributed to fostering seamless supervision.

Overhaul of the Examination/Offsite Monitoring Process

Risk based supervision features a balanced complementation of on-site examination and off-site monitoring. An effective off site monitoring mechanism that yields an updated assessment of the changing risk profile of a banking unit or group serves as a valuable input to the scoping and planning of an on-site examination. On the other hand, a Report of Examination that is completed and shared shortly after an on site examination, one that is well written and clearly presents major supervisory conclusions, contributes significantly to the preparation of an updated assessment of bank risk profile. The interdependency and close coordination of work units discharging those separate tasks should serve to foster teamwork and build mutual trust.

The on-site examination assumes a different focus, from a compliance-based exercise to one that puts emphasis on the soundness of governance and risk management and the effectiveness of the audit function. Its conduct entails reliance on enhanced analytic skills and judgment calls of examiners. The method for implementing the rating system for banks, known as CAMELS, has likewise undergone review to reflect the new approach. Moreover, examination teams are now expected to discuss more candidly with banks how ratings were determined.

For off-site monitoring, the challenge is to be able to identify sources of potential threats to financial and reputational soundness. Critical thinking abilities and sound judgment skills are very crucial. Bank supervision staff assigned to do this task need to alert higher management of what he perceives as potential threats, based on all available information. As the central point of contact, he is also expected to thoroughly understand and be updated on the business of a bank. These assessments are synthesized in an Institutional Overview (IO) document that is updated on a quarterly basis.

Skill Sets and Training

The revision in methodology and processes in the conduct of supervision has underscored the need for new skill sets other than what had been traditionally identified as accounting and auditing skills. These are being developed through in-house structured training programs and specialty courses designed with the assistance of outside experts provided through technical assistance from the IMF (funded by the Japanese Government), First Initiative (administered by the World Bank) and USAID. All supervisory personnel are required to go through these continuing training programs. A major objective of the technical assistance is also the development of in-house trainors from the supervisory staff to facilitate mass training at affordable cost. The list of courses is shown in Annex A. In addition to classroom-based training, a Resident Advisor and short-term consultants funded from IMF technical assistance also delivers practical training.

The in-house training programs are complemented by sending selected staff to external training courses provided by foreign governments especially those with well-developed supervisory practices as well as the BIS and regional organizations like SEACEN, EMEAP and SEANZA.

The BSP has also strongly encouraged and subsidized the acquisition by staff of international certification for relevant skills such as Chartered Financial Analyst (CFA), Certified Internal Auditor (CIA), Professional Risk Manager (PRM), Financial Risk Manager (FRM), and Certified Information System Auditor (CISA) for IT examiners. It has also been sending staff including lawyers to universities for graduate and post-graduate education in relevant fields supporting the expanding requirements of banking supervision. The hiring policy for supervisory personnel has been expanded as well to be able to take on new talent from disciplines other than finance and accounting such as statistics, economics, mathematics and operations research.

However, even as BSP has invested heavily in developing its human resources in banking supervision, it has also to deal with the challenge of retaining its staff. With their more advanced skills, they have become more attractive to foreign banking supervisors, international accounting firms, and private industry who themselves are after the same skill sets.

Organization of the BSP Supervision and Examination Sector (SES)

The BSP-SES headed by a Deputy Governor is the specific component of the BSP that is responsible for carrying out its responsibility from bank supervision. The SES is in the process of completing a deep and sweeping reorganization to effectively implement its risk-based supervisory approach.

Under the reorganization, the old set-up of self-contained end-to-end supervision and examination departments assigned to banks by general type is being replaced with a set-up that features specialist organizational formations build around the major bank supervision processes and held together by overall supervisory relationship management teams in charge of major banking groups and/or as diversified portfolio of financial institutions. (The old organizational set-up is shown in Annex B and the new set-up is shown in Annex C.)

The new SES is divided into four major sub-sectors, to provide: (1) sufficient controls and accountability over specific activities in the supervision process; (2) specialization and focus in highly technical areas; (3) consistency in the interpretation and application of supervisory policies and rules and regulations; and (4) timeliness in the submission of reports of examination and accomplishment of critical supervision tasks.

The new set-up better recognizes the specialized requirements of troubled banks with a view to their early resolution. At the same time, for the broader population of normally operating financial institutions, the set-up allows the highly flexible, dynamic and scalable application of risk-based supervision methods through the coordinated efforts of off-site relationship managers for continuity and on-site examination terms that bring together various specialist skills depending on the risk profile of target financial institutions. The arrangement is complemented by the centralized delivery of critical services such as licensing, policy development, data management, consumer affairs management, and administrative services.

Appropriate technology has also been adopted to maximize supervision efficiency and knowledge sharing. The system benefits from a supervisory data warehouse environment that centrally collects and processes all incoming supervisory financial and non-financial data and makes these available to examiners/analysts/managers on-line depending on security clearance. For the better management of bank examination activity, an Examiner Resource Scheduling System (ERSS) is under development and will be deployed in 2008. It utilizes network flow programming and other operations research techniques to aid management achieve optimal solution to the following challenges: (1) how can examiner resources be efficiently allocated in ensuring the "best fit" group of examiners is deployed to each bank according to risk profile; and (2) what is the appropriate deployment schedule that balances need for timely examinations, continuous examiner training, scheduled leaves, natural personnel movements as well as personnel emergencies and other contingencies. These are non-trivial challenges in an operating environment that requires oversight over more than 800 banks of various complexities as well as a myriad of other non-bank financial institutions while supervisory resources are both budget-constrained and time-constrained.

Other Supervisory Tools

To complement the improvements in its on-site examination practices, the BSP has also enhanced its other supervisory tools specifically those for offsite surveillance. For example, the use of Bank Performance Reports (BPR) system has been very useful in monitoring the financial performance of supervised entities in between on-site examinations. The BPR contains in one compact report key performance indicators that support CAMELS soundness analysis. The BSP is also using a statistical model – the Bank Early Warning System (EWS) – that generates one-year ahead forecasts of key bank performance variables, especially solvency and asset quality. The output of EWS is used to help prioritize on-site examinations and validate judgmental assessments of bank condition.

Compliance with the Basel Core Principles for Effective Banking Supervision

The 2002 IMF assessment on the Philippines' compliance with the Basel Core Principles for Effective Banking Supervision revealed that although compliance overall is quite high, important gaps still existed. These gaps included, among others, strengthening the legal protection for supervisors, formalization of information sharing and cooperation with other local and foreign supervisory agencies through MOUs or other mechanisms, improving the conduct of consolidated supervision and the examination procedures, enhancing the framework for prompt corrective action and problem bank resolution, and the application of appropriate standards for banks' risk management systems.

Certainly, a lot of things have happened since then. Although the revisions to the BSP Charter have not been enacted yet, the strengthening of legal protection for supervisors is one of the proposed revisions currently being deliberated in Congress. Meanwhile, case law upholding the supervisory powers of the BSP has also steadily built up. On the other hand, as mentioned above, there is already a formal platform for information exchange and cooperation among the local financial supervisors through the FSF. As to information exchange arrangements with foreign supervisory agencies, the BSP has formal agreements in place with five (5) foreign supervisory agencies, and is negotiating with seven (7) others.

As stated above, the BSP has started operationalizing consolidated supervision since 1998. This was followed by a massive reorganization of the BSP to support the practice of consolidated and risk-based supervision. However, admittedly even with the seemingly extensive coverage of BSP's supervision over banking groups, it is constrained by its Charter and the banking law to supervising and examining only those subsidiaries and affiliates that are engaged in allied activities. There is no provision for obtaining information from non-allied affiliates or the possibility of looking into the operations of these firms even if there is enough reason to do so. Greater flexibility in these areas is in the list of proposed revisions to the existing BSP Charter. In the interim, cooperative arrangements in the context of the FSF have provided an adequate work-around to these constraints.

The examination procedures, on the other hand, have been improved to support the adoption of the risk-based supervision framework. This started in 2005 when the Manual on Supervision and Examination of Banks (the Manual) was revised to conform to the risk-based approach with the help of technical assistance from the United States Agency for International Development (USAID). The development of the Manual was done simultaneously with the implementation of a technical assistance from First Initiative that aimed to develop a sustainable and relevant formal foundation training program for BSP examiners. The focus of the training program was the conduct of risk-based examination. Hence, "pilot" risk-based examinations were conducted starting in 2005 and became a venue for BSP examiners to apply what they have learned from the training program. Now, full risk-based examination is being done on all banks.

The BSP's prompt corrective action framework also underwent review and enhancement in 2006. The new framework now communicates to the supervised entities in clear terms when and how the BSP will deal with potential problems in bank operations in order to prevent more serious problems from arising that would necessitate more drastic measures. For banks that are beyond corrective measures, a number of procedures are in place, but application can be hampered by gaps in the law. This is the reason why the proposed revisions to the BSP Charter include provisions that would give the BSP more powers to effectively carry out problem bank resolutions in a timely manner.

The BSP has also formally implemented appropriate standards for banks' risk management systems. This started with the guidelines on the minimum standards for risk management of financial derivatives. This was followed by the guidelines on the minimum standards that banks must observe in designing and using an internal credit risk rating system for the underwriting and on-going monitoring of their credit exposures. Then, separate guidelines on market risk management, liquidity risk management, and IT risk management were issued in close succession. The BSP has also issued guidelines on supervision by risk, which sets out the framework for BSP's supervision of the eight (8) major risks faced by banks (credit risk, market risk, interest rate risk, liquidity risk, operational risk, compliance risk, strategic risk, and reputational risk). Issuance of these risk management guidelines aims to complement the risk-based supervisory framework being implemented by BSP. It also aims to instill in banks the discipline of critically examining their risk exposures.

Adoption of International Standards

Aside from striving to be aligned with the Basel Core Principles for Effective Banking Supervision, the BSP has also been keeping pace with developments in international standards for capital regulation and accounting practices.

The BSP has actively monitored the crafting of the Basel II standards from the time the Basel Committee first issued the first consultative document in 1999. BSP even participated in the third quantitative impact study (QIS) of Basel II and was part of the Non G-10 QIS Group. Simultaneously, the BSP has also prepared internally for the eventual adoption of Basel II in the Philippines by making necessary revisions and adjustments to the regulatory framework, and undertaking capacity building and market awareness programs. Consequently, the BSP successfully adopted the simple approaches under Pillar 1 of Basel II starting July of this year as well as suitably adopted Pillar 3 guidelines. This was preceded by more than one year of consultations with all stakeholders before the final implementing guidelines were issued, and half a year of parallel run with the existing framework. By 2010, the advanced approaches of Basel II may already be allowed for purposes of computing banks' capital requirements. The timing is dictated by the adequacy of available data. Currently, Internal Capital Adequacy Assessment Process (ICAAP) guidelines are under exposure to the industry and other interested parties for the purpose of operationalizing Pillar 2 by 2008.

The BSP has likewise adopted the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS), which are patterned after the revised International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB). Since 2005, financial institutions have been mandated to fully comply with the provisions of PFRS/PAS in preparing both their audited financial statements and the financial statements for prudential reporting[2]. The adoption of the new set of accounting standards has been aimed at enhancing fairness, transparency and accuracy in financial reporting.

Developmental Initiatives

With improving skills and supervisory capacity, the BSP has more confidently pursued a targeted developmental agenda to promote further development of the Philippine financial system while maintaining prudential standards. These initiatives include: (1) capital market development through contributions to foreign exchange liberalization, domestic bond and derivatives market development and payments systems upgrades; (2) enhanced access to banking services by the poor through sustainable microfinance practices

[2] The only instances where a different accounting treatment is prescribed for prudential reporting are: (1) in preparing consolidated financial statements – only financial allied subsidiaries, except subsidiary insurance companies, shall be consolidated on a line-by-line basis; and (2) in setting the allowance for probable losses on loans – the BSP-prescribed valuation reserves shall be complied with.

of banks and innovative deployment of mobile banking services; and (3) promoting financial literacy.

The BSP has also prioritized in its legislative advocacy the establishment of a comprehensive credit information system through enactment of the Credit Information System Act, the modernization of the payments system through the Payment System Act, and the reform of the bankruptcy framework through the Corporate Recovery Act. It also supports various capital market development-oriented bills such as the Personnel Equity Retirement Act which promotes private long-term saving for retirement income augmentation.

These initiatives should go a long way towards developing fully the Philippine financial system in a stable and robust manner. The current overdependence on the banking system even for long-term savings creates an inherently unstable system that is prone to systemic risks. The long-term stability of the banking system as much depends on the availability of complementary institutions and markets.

5. Concluding remarks

The supervision and examination of banks in the Philippines has gone a long way in the last 10 years. Despite the limits set by the existing legal framework, the BSP continues to upgrade its supervision and examination approaches in line with internationally accepted standards. Moreover, the BSP also strives to improve banking practices through the issuance of relevant regulations. However, it recognizes that in order to achieve further improvements in the practice of banking supervision, critical changes to the BSP Charter and other relevant laws have to be done. Thus, the BSP is working closely with the Philippine Congress to address these matters.

The on-going reforms to the banking supervision are re-shaping in a significant way the conduct of banking and the delivery of financial services in the economy. Among others, it has opened up the doors to financial innovation, instilled greater market discipline, and opened up competition. In turn, this has promoted market-driven consolidation in the banking industry towards fewer banking groups offering comprehensive financial services, and a plethora of smaller banks engaged on niche banking services. This is work-in-progress that BSP is carefully guiding, monitoring, and adapting to.

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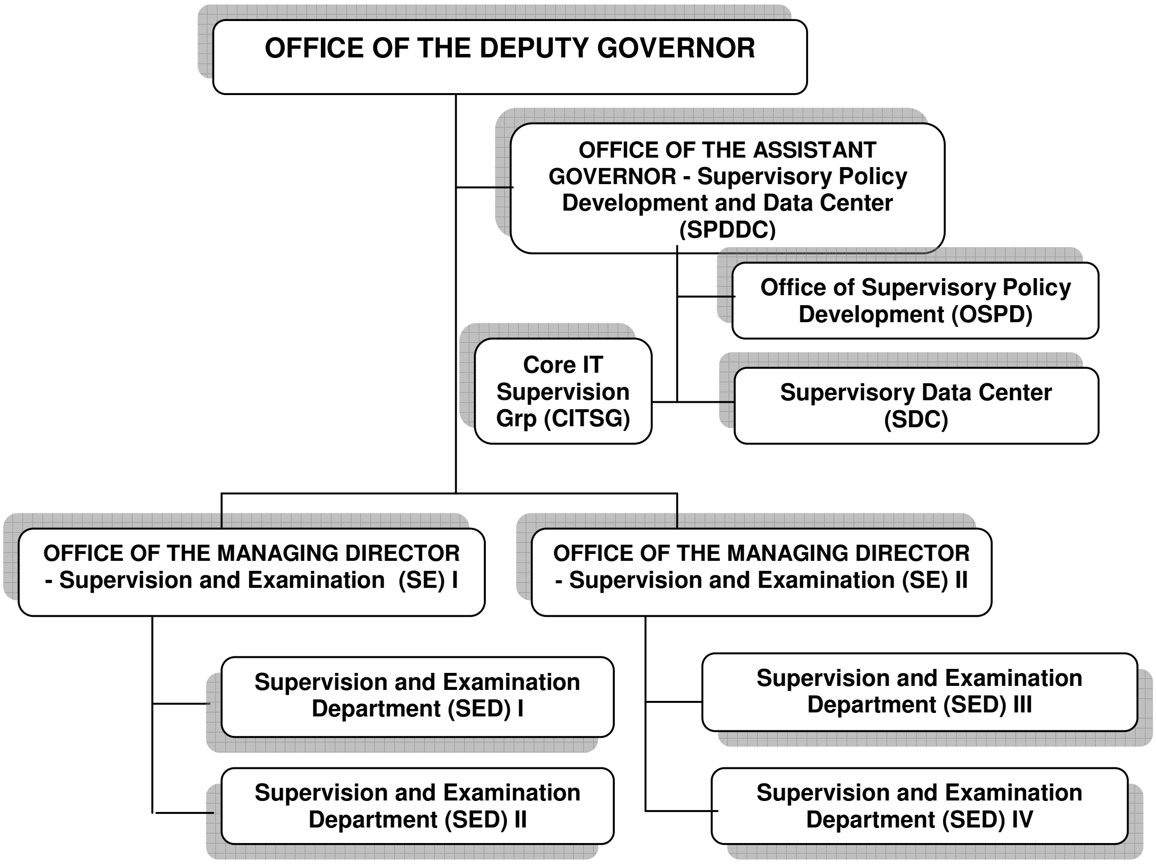
Annex A

Supervisory Courses for the Supervision and Examination Sector (SES)

A. Basic Supervision Skills
1. Structured Training for Risk-based Supervision
2. Macroeconomic Factors in Risk-based Supervision
3. Data Warehouse
4. Supplemental Courses for Credit & Operational Risks
5. Legal Risk Management
6. Report Writing
7. AML (Anti-money Laundering courses
9. Consumer Affairs Courses
10. Microfinance Supervision
11. Basic IT Examination Course
12. Basic ACL Course for SES Examiners
13. CPC Courses
14. Supervision of Problem Banks
15. Licensing Courses
16. Trust Examinations
B. Focused / Technical Courses
1. Intermediate Capital Markets Course
2. Advance Capital Markets Course
C. Soft Skills Development Courses
1. Effective Oral Communication
2. Effective Presentation Skills
3. Redesigned MSEPs 1 & 2
D. Computer Courses
1. Microsoft Word
2. Microsoft Excel
3. Microsoft Powerpoint
4. Microsoft E-editing of Documents
6. Lotus Notes

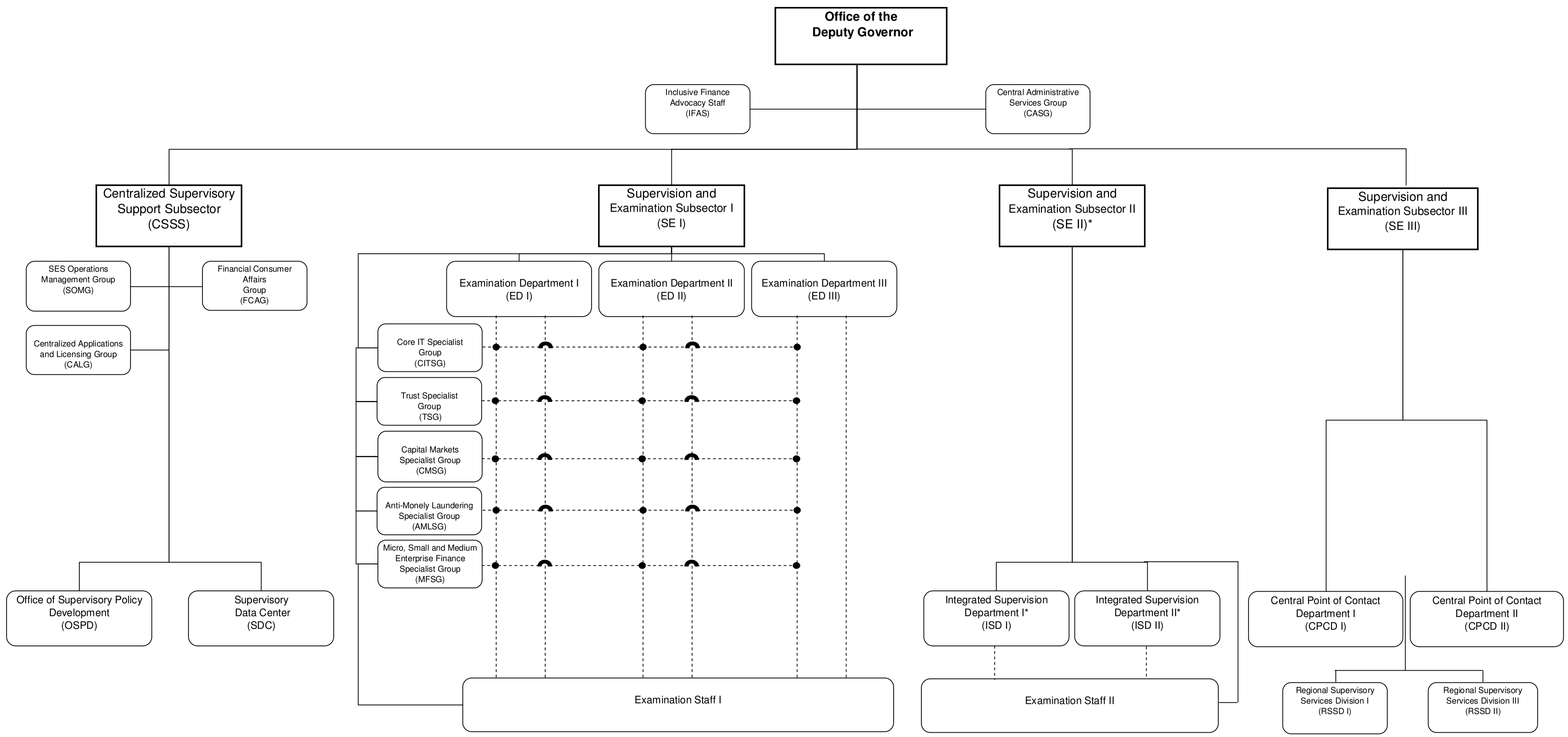
Annex B

Past Organizational Structure of the BSP Supervision and Examination Sector (SES)



Annex C

New Organizational Structure of the BSP Supervision and Examination Sector (SES)



NOTE:
* SE II may borrow generalist and specialist examination staff from SE I on short-term projects/assignments as the exigencies of the service may require